

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

CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2023 and 2022

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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, 2023 and 2022, and the related consolidated statements of operations, 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, 2023 and 2022, 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.

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 2023 consolidated financial statements as a whole. The 2023 obligated group and consolidating balance sheets, obligated group and consolidating statements of operations, and obligated group and consolidating statements of changes in net assets are presented for purposes of additional analysis of the 2023 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 2023 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 2023 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the 2023 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 2023 consolidated financial statements or to the 2023 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 2023 consolidated financial statements as a whole.

Crowe LLP
Crowe LLP

Tampa, Florida
April 26, 2024

CHAPTERS HEALTH SYSTEM, INC. AND AFFILIATES
CONSOLIDATED BALANCE SHEETS
December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 33,818,101	\$ 13,957,074
Short-term investments	11,572,539	9,291,149
Assets limited as to use, current portion	4,839,261	3,452,644
Patient accounts receivable, net	43,623,346	19,119,599
Capitated accounts receivable	6,516,439	7,099,173
Due from related party	675,980	5,729,953
Note receivable	-	5,000,000
Pledges receivable, current portion	423,454	480,305
Interest rate swap agreements	282,822	678,387
Other current assets	19,547,437	10,073,620
Total current assets	121,299,379	74,881,904
Assets limited as to use, net	5,608,228	1,788,383
Pledges receivable, net	3,667,088	1,116,880
Long-term investments	97,711,164	92,165,502
Property and equipment, net	164,962,290	93,968,878
Right-of-use assets	50,622,821	28,233,549
Beneficial interest in net assets of Cornerstone Foundation	7,925,900	6,993,965
Goodwill and intangible assets, net	30,640,428	19,828,480
Other assets	2,359,863	2,133,276
Total assets	\$ 484,797,161	\$ 321,110,817

(Continued)

CHAPTERS HEALTH SYSTEM, INC. AND AFFILIATES
CONSOLIDATED BALANCE SHEETS
December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable and accrued expenses	\$ 21,639,476	\$ 7,358,511
Accrued employee compensation and related benefits	25,132,183	12,425,829
Estimated patient care expenses payable	12,654,636	6,093,588
Third-party medical claims	2,462,980	1,612,982
Lease liabilities, current	7,548,904	4,149,085
Current portion of long-term debt	2,200,646	1,552,300
Annuity obligations, current portion	109,455	159,457
Third-party settlements	1,527,940	1,814,804
Deferred revenue	-	29,807
Total current liabilities	<u>73,276,220</u>	<u>35,196,363</u>
Long-term debt, net of current portion	27,372,177	22,542,808
Lease liabilities, net	44,708,347	25,624,707
Annuity obligations, net	367,552	258,825
Other long-term liabilities	3,011,719	2,765,560
Total liabilities	<u>148,736,015</u>	<u>86,388,263</u>
Net assets		
Without donor restrictions	316,096,599	221,336,505
Noncontrolling interest in subsidiaries	<u>(3,352,699)</u>	<u>(1,042,752)</u>
Total net assets without donor restrictions	312,743,900	220,293,753
With donor restrictions	23,317,246	14,428,801
Total net assets	<u>336,061,146</u>	<u>234,722,554</u>
	<u>\$ 484,797,161</u>	<u>\$ 321,110,817</u>

See accompanying notes to consolidated financial statements

CHAPTERS HEALTH SYSTEM, INC. AND AFFILIATES
CONSOLIDATED STATEMENTS OF OPERATIONS
Years ended December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Net assets without donor restrictions		
Revenues and other support		
Net patient service revenue	\$ 423,243,012	\$ 215,191,792
Capitated non-risk revenue	38,982,807	31,212,715
Contributions	6,018,503	4,153,614
Net assets released from restrictions used for operations	9,642,515	5,490,085
Other operating revenue	9,640,256	6,317,296
Total revenue, gains and support	<u>487,527,093</u>	<u>262,365,502</u>
Expenses		
Salaries and benefits	311,988,176	164,746,108
Purchased services	46,859,869	22,342,452
Insurance and other	60,212,040	40,908,730
Durable medical equipment, medical supplies, and drugs	37,107,842	15,885,746
Medical claims expense	33,852,997	24,912,802
Depreciation and amortization	11,551,948	9,183,759
Interest	2,269,158	1,063,889
Affiliation expenses	1,188,528	375,000
Total expenses	<u>505,030,558</u>	<u>279,418,486</u>
Loss from operations	(17,503,465)	(17,052,984)
Nonoperating revenues and expenses		
Excess of fair value of assets acquired over liabilities assumed in acquisition of Hope Hospice and Community Services, Inc. (Hope) and Capital Caring Health and its affiliates (Capital) (See Note 2)	98,229,329	-
Excess of fair value of assets acquired over liabilities assumed in acquisition of Cornerstone Hospice and Palliative Care, Inc (Cornerstone) (See Note 2)	-	63,662,588
(Loss) gain on sale of property and equipment	(1,623,578)	112,817
Loss on disposal of license	(1,510,134)	-
Loss on sale of a business	-	(344,993)
Investment income (loss)	17,563,507	(18,009,439)
Change in fair value of interest rate swap agreements	(395,565)	1,316,604
Total nonoperating (loss) income	<u>112,263,559</u>	<u>46,737,577</u>
Change in net assets without donor restrictions before other changes	<u>\$ 94,760,094</u>	<u>\$ 29,684,593</u>
Change in net assets with donor restrictions before other changes		
Excess of fair value of assets acquired over liabilities assumed in acquisition of Hope Hospice and Community Services, Inc. (Hope) and Capital Caring Health and its affiliates (Capital) (See Note 2)	7,163,521	-
Excess of fair value of assets acquired over liabilities assumed in acquisition of Cornerstone Hospice and Palliative Care, Inc (Cornerstone) (See Note 2)	-	12,119,093
Contributions	10,153,137	4,789,698
Investment income (loss)	282,367	(308,609)
Change in beneficial interest in net assets of Cornerstone Foundation	931,935	(5,125,128)
Net assets released from restrictions	<u>(9,642,515)</u>	<u>(5,490,085)</u>
Change in net assets with donor restrictions before other changes	<u>\$ 8,888,445</u>	<u>\$ 5,984,969</u>

See accompanying notes to consolidated financial statements

CHAPTERS HEALTH SYSTEM, INC. AND AFFILIATES
CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS
Years ended December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Net assets without donor restrictions - January 1	\$ 220,293,753	189,613,422
Change in net assets without donor restrictions before other changes	94,760,094	29,684,593
Member distributions	(3,079,562)	(1,571,622)
Change in non-controlling interest	769,615	2,567,360
	<u>(2,309,947)</u>	<u>995,738</u>
Change in net assets without donor restrictions	<u>92,450,147</u>	<u>30,680,331</u>
Net assets without donor restrictions - December 31	<u>\$ 312,743,900</u>	<u>220,293,753</u>
Net assets with donor restrictions - January 1	\$ 14,428,801	8,443,832
Change in net assets with donor restrictions before other changes	<u>8,888,445</u>	<u>5,984,969</u>
Net assets with donor restrictions - December 31	<u>\$ 23,317,246</u>	<u>14,428,801</u>

See accompanying notes to consolidated financial statements

CHAPTERS HEALTH SYSTEM, INC. AND AFFILIATES
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Cash flow from operating activities		
Change in net assets before other changes	\$ 103,648,539	\$ 35,669,562
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	(92,955,215)	(49,951,291)
Depreciation and amortization	11,551,948	9,183,759
Change in beneficial interest in net assets of Cornerstone Foundation	(931,935)	5,125,128
Net realized and unrealized (gains) losses on investments	(13,883,811)	21,541,502
Change in fair value of interest rate swap agreements	395,565	(1,316,604)
Loss on sale of a business	-	344,993
Change in non controlling interest	769,615	2,567,360
Loss (gain) on sale/disposal of assets	3,133,712	(112,817)
Change in assets and liabilities		
Patient accounts receivable	(7,848,339)	2,798,137
Capitation receivable	3,609,418	(4,395,437)
Due from related party	5,053,973	(4,237,650)
Pledges receivable	(101,357)	(129,808)
Other current assets	(9,473,817)	1,961,584
Other assets	3,966,355	349,174
Reduction in carrying amount of right-of-use assets	6,144,674	4,560,494
Change in operating lease liabilities	(6,080,760)	(3,825,208)
Accounts payable and accrued expenses	(1,922,235)	(1,337,900)
Estimated patient care expenses payable	6,561,048	1,704,964
Third party medical claims	849,998	(828,522)
Accrued employee compensation and related benefits	(1,296,213)	(2,841,081)
Third-party settlements	(502,508)	(472,282)
Deferred revenue	(29,807)	(7,943)
Other liabilities	(16,595)	(126,402)
Net cash from operating activities	10,642,253	16,223,712
Cash flow from investing activities		
Proceeds from sale of property and equipment	996,201	710,388
Purchase of property and equipment	(3,257,802)	(9,399,671)
Proceeds from sales of investments	49,769,555	41,471,483
Purchases of investments	(19,627,732)	(45,824,545)
Proceeds from sale of a business	-	1,600,000
Note receivable advances converted to consideration (see Notes 2 and 7)	(2,000,000)	(5,000,000)
Net cash from investing activities	25,880,222	(16,442,345)
Cash flow from financing activities		
Payment of member distributions	(3,079,562)	(1,571,622)
Proceeds from long-term debt	9,000,000	-
Repayment of long-term debt	(22,396,862)	(5,318,075)
Payment of deferred financing fees	(185,024)	-
Net cash from financing activities	(16,661,448)	(6,889,697)
Net change in cash and cash equivalents	19,861,027	(7,108,330)
Cash and cash equivalents at beginning of year	13,957,074	21,065,404
Cash and cash equivalents at end of year	\$ 33,818,101	\$ 13,957,074
Supplemental disclosure of cash flow information		
Cash paid for interest	\$ 2,269,158	\$ 1,063,889
Leased assets obtained in exchange for new operating lease liabilities	\$ 310,790	\$ 27,135,558
Leased assets obtained during business affiliation	\$ 27,533,946	\$ 6,464,209

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, Georgia, Virginia, Maryland, and Washington DC.

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

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

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

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, Citrus, and Alachua counties. HPH also provided home health services in Pasco, Pinellas, Hardee, Highlands, Hillsborough, and Polk counties until March 2023 at which time those services were discontinued and the Medicare enrollment was voluntarily terminated.

Cornerstone Hospice & Palliative Care, Inc. (COR) is a Florida nonprofit corporation whose mission 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 (SVC): SVC is a Florida single member limited liability company that provides palliative care services in the counties served by the Affiliates.

Care Partners, LLC (CPL): CPL 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.

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.

(Continued)

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

Hope Hospice and Community Services, Inc. (HOP): HOP is a Florida nonprofit corporation whose mission is to provide hospice and other end-of-life services for residents living in Charlotte, Collier, Glades, Hendry, and Lee counties.

Visiting Nurses Association of Southwest Florida, Inc. (VNA): VNA is a nonprofit corporation that provides home and community based health care services to all people in Charlotte, Collier, Glades, Hendry, and Lee counties. In March 2023, these services were discontinued and the Medicare enrollment was voluntarily terminated.

Capital Caring Health (CCH): CCH is a Virginia nonstock corporation and is the sole member of three supporting organizations: Capital Hospice d/b/a Capital Caring, Capital Caring Stay at Home Services, Inc., and Capital Caring Advanced Illness, Inc.

Capital Hospice d/b/a Capital Caring (CAP): CAP is a nonprofit organization whose mission is to provide hospice and other end-of-life services for residents living in Northern Virginia, Washington D.C., suburban Maryland, and surrounding metropolitan communities. Capital Caring is the sole member of Capital Palliative Care Consultants (CPCC).

Capital Palliative Care Consultants: CPCC is a Virginia single member limited liability company that provides palliative care services in the counties served by CAP.

Capital Caring Stay at Home Services, Inc. (CCSH): CCSH is a Virginia nonprofit organization that offers services that seek to improve patients' social and physical environments as a means of bettering their care and quality of life so that they can ultimately stay at home. Services include care coordination, transportation, assistance with nutritional needs, caregiver training, home safety evaluations, helping with pet care, and tother general coordination of medical and homecare services.

Capital Caring Advanced Illness, Inc. (CCAI): CCAI is a Virginia nonprofit organization that services seniors who are home limited or otherwise benefit from receiving most of their care in the home due to an advanced illness or disability.

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. (CNU): CNU is a Florida for-profit corporation and was established to provide patients with a collaborative team based approach to chronic illness care. CNU is authorized to issue 100,000 shares of common stock. As of December 31, 2023, there are 100,000 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. CNU owns 60% of ADCE and has been consolidated with CNU for financial reporting purposes.

SECUR, Inc (SEC): SEC, is a Florida for-profit corporation and was established as an Institutional Special Needs Medicare Advantage Plan (I-SNP). The sole shareholder of SEC is CareNu, Inc.

(Continued)

CHAPTERS HEALTH SYSTEM, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2023 and 2022

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

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 and its affiliates. 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.

Non-controlling interest: Non-controlling interest is the portion of the equity ownership in an affiliate not attributable to the parent company (CareNU), who has the controlling interest. CNU owns 60% of ADCE and has been consolidated with CNU for financial reporting purposes.

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.

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.

Notes Receivable: Note receivable represents advances under a line of credit agreement to Capital Caring as well as funds loaned to a software company to help develop computer software for hospice. The software loans are valued at historic cost, including unpaid contractual interest payments, less a valuation allowance for which it is probable that Capital Caring will be unable to collect. See Notes 2 and 7 for additional information.

(Continued)

CHAPTERS HEALTH SYSTEM, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2023 and 2022

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

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, 2023 and 2022. 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.

Inventories: Inventories are stated at the lower of cost or net realizable value, using the first-in, first-out method.

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, 2023 and 2022 were approximately \$7,851,000 and \$5,982,000, respectively. Deposits at December 31, 2023 and 2022 were approximately \$3,448,000 and \$1,930,000, respectively. Other accounts receivable at December 31, 2023 and 2022 were approximately \$8,248,000 and \$646,000, respectively.

Property and Equipment: Property and equipment are stated at cost or, if acquired through an affiliation agreement or donated to CHS, at fair value on the date of acquisition. Property and equipment acquired through a business affiliation 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.

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.

(Continued)

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

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.

Intangible assets: The Organization has acquired intangible assets through its affiliation agreements as described in Note 2. Intangible assets consists of tradenames, certificates of need, and a PACE license. The useful lives of the intangible assets range from 15 to 20 years.

Impairment of Long-Lived Assets: On an ongoing basis, CHS reviews long-lived assets (property and equipment and intangible 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. During the year, CHS determined that the Achieve tradename no longer had value as the home health practices were voluntarily dissolved. CHS recorded a loss of \$1,510,134, which is included within loss on disposal of license within the consolidated statements of operations. As of December 31, 2023 and 2022, management believes that no other impairments exist.

Goodwill: Goodwill of approximately \$16,397,000 at December 31, 2023 and 2022, 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). 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, 2023 and 2022 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 \$47,532,000 and \$23,115,000 for the years ended December 31, 2023 and 2022, respectively, and are included in purchased services in the consolidated statements of operations.

Third-Party Medical Claim Expense: Medical claim expenses are costs for providing medical care to patients under the direct contracting entity and PACE programs. 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.

(Continued)

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

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 94% and 92% of the CHS' net patient service revenue was derived from the Medicare and Medicaid programs for the years ended December 31, 2023 and 2022, 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 the 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, 2023 and 2022, were approximately \$2,471,000 and \$1,483,000, 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 2023 and 2022. 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, 2023 and 2022.

During 2020, CHS affiliates had select Medicare claims under review. The amount of the settlement accrued as of December 31, 2023 and 2022 was approximately \$226,000 and \$1,004,000, 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 LPH. 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, 2023 and through the date of the Independent Auditor's report and therefore has not recorded a liability as of December 31, 2023 or 2022.

Beginning in November 2021, and continuing through February 2022, Medicare conducted a Supplemental Medical Review Contractor (SMRC) claims review. Capital Caring received notifications that the SMRC claims review identified approximately \$2,555,000 of improper payments. The SMRC claims review identified approximately \$1,433,000 as being improperly paid by the State of Virginia and was recouped against payments in 2022. The SMRC claims review identified approximately \$1,122,000 as being improperly paid by the State of Maryland. Approximately \$280,000 was recouped against payments in 2022, and in August 2022, Capital Caring entered into a repayment agreement for the remaining balance of approximately \$842,000 to be repaid in 10 monthly installments, including interest at an annual rate of 9.375%. The remainder of the settlement was paid during the year ended December 31, 2023, and there is no payable at December 31, 2023.

PACE Revenue: CHS operates Hope PACE (Program of All-Inclusive Care for the Elderly), a Medicare and Medicaid program that helps people meet their health care needs in the community instead of going to a nursing home or other care facilities. PACE serves individuals who: are ages 55 or older; certified by their state to need nursing home care; able to live safely in the community at the time of enrollment; and live in a PACE service area. Capitation revenue recognized from the PACE program relates to contracts with participants in which the performance obligation is to provide healthcare services to the participants. CHS contracts directly with Medicare and Medicaid to manage the healthcare needs of the program's participants and records PACE capitation revenue on a per member, per month ("PMPM") basis. Fees are recorded gross in revenues because CHS is acting as a principal in providing for or overseeing comprehensive care provided to the participants. CHS considers all contracts with participants as a single performance obligation to provide comprehensive medical, health, and social services that integrate acute and long-term care. The capitation revenues are recognized based on the estimated PMPM transaction price to transfer the service for a distinct increment of the series (i.e. month). CHS recognizes revenue in the month in which participants are entitled to receive comprehensive care benefits during the contract term. During the year ended December 31, 2023, CHS recognized approximately \$41,402,000 in PACE revenue included within net patient service revenue included in the consolidated statements of operations.

(Continued)

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

Capitated Revenue: Capitated contract revenue is recorded as revenue in the month that members are entitled to healthcare services through contracts with ADCE. As of December 31, 2023 and 2022, 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 \$7,093,000 and \$6,743,000 for the years ended December 31, 2023 and 2022, 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 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 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.

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 include change in net assets without donor restrictions before other changes which is designated as CHS' performance indicator.

Income Taxes: Chapters and the affiliate organizations, except for CNU, 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.

(Continued)

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

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, 2023 and 2022.

CNU 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, 2023, CNU 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.

Reclassifications: Certain prior year amounts have been reclassified to conform with the current year presentation. These reclassifications did not have any impact on the total net assets or change in net assets.

Subsequent Events: Management has performed an analysis of the activities and transactions subsequent to December 31, 2023 to determine the need for any adjustments to and/or disclosures within the consolidated financial statements for the year ended December 31, 2023. Management has performed their analysis through April 26, 2024, which is the date the consolidated financial statements were available to be issued.

In January 2024, Chapters and Good Shepherd sold certain assets to Medicare Hospice Services, LLC. in exchange for \$500,000 cash, \$300,000 note receivable and a 20% equity interest in Medicare Hospice Services, LLC. The purpose of this transaction is to enter the hospice market in Miami-Dade County, Florida.

(Continued)

CHAPTERS HEALTH SYSTEM, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2023 and 2022

NOTE 2 – AFFILIATION AGREEMENTS

Current year:

Hope Hospice and Community Services, Inc.:

On December 8, 2022, CHS signed an affiliation agreement with Hope Hospice and Community Services, Inc. and its affiliates to expand CHS' market in Southwest Florida. On March 1, 2023, CHS and Hope Hospice and Community Services, Inc. (collectively, the "Hope Parties") closed their affiliation agreement making CHS the sole member of the Hope Parties. Beginning on March 1, 2023, the financial position, results of activities and cash flows of all Hope entities were consolidated with CHS. This transaction was accounted for under the acquisition accounting method of business combinations. As a result, CHS recorded an inherent contribution of \$80,261,224 in 2023. No consideration was exchanged, and no financial commitments were made. CHS incurred approximately \$874,000 in acquisition costs.

The following table summarizes the recognized amounts of identifiable assets acquired and liabilities assumed at March 1, 2023:

Cash	\$	9,531,656
Patient accounts receivable		4,989,452
Other accounts receivable		3,026,684
Investments		26,060,170
Intangible assets and tradenames		5,375,000
Right-of-use assets		4,792,536
Property and equipment		61,864,819
Other assets		<u>3,348,273</u>
Total assets		<u>118,988,590</u>
Accounts payable	\$	6,009,569
Accrued expenses		1,387,540
Accrued payroll liabilities		7,197,485
Long-term debt		19,000,000
Lease liabilities		4,811,293
Other liabilities		<u>321,479</u>
Total liabilities		<u>38,727,366</u>
Excess of fair value of assets acquired over liabilities assumed	\$	<u>80,261,224</u>
Included within net assets without donor restrictions	\$	80,024,844
Included within net assets with donor restrictions	\$	236,380

During the period March 1, 2023 to December 31, 2023, the acquired debt was paid in full.

(Continued)

NOTE 2 – AFFILIATION AGREEMENTS (Continued)

The following methods were used to determine fair value:

- Property and equipment - fair value was determined using the cost and sales comparison approach.
- Tradenames - fair value was determined using the royalty relief method, a form of the income approach.
- Certificate of Need and PACE license - fair value was determined using the cost approach.
- Contractual accounts receivable approximates the fair value of accounts receivable.

Capital Caring Health:

On December 27, 2022, CHS signed an affiliation agreement with Capital Caring Health and its affiliates to expand CHS' market into the Virginia, Maryland and the Washington D.C. metropolitan areas. On May 1, 2023, CHS and Capital Caring Health (collectively, the "Capital Parties" or "Capital Caring") closed their affiliation agreement making CHS the sole member of Capital Caring Health. Beginning on May 1, 2023, the financial position, results of activities and cash flows of all Capital entities were consolidated with CHS.

This transaction was accounted for under the acquisition accounting method of business combinations. As a result, CHS recorded an inherent contribution of \$25,131,626 in 2023. Prior to the closing of the affiliation agreement on May 1, 2023, CHS loaned the Capital Parties \$7,000,000 in two tranches of \$5,000,000 (prior to December 31, 2022) and \$2,000,000 (prior to May 1, 2023). As part of the affiliation transaction, the \$7,000,000 was accounted for as consideration paid to the Capital Parties. CHS incurred approximately \$612,000 in acquisition costs.

(Continued)

CHAPTERS HEALTH SYSTEM, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2023 and 2022

NOTE 2 – AFFILIATION AGREEMENT (Continued)

The following table summarizes the estimated fair value of Capital Caring's assets and liabilities at May 1, 2023:

Cash	\$	2,905,979
Patient accounts receivable		11,665,956
Pledges receivable		2,392,000
Investments		3,231,356
Intangibles and tradenames		7,200,000
Right-of-use assets		23,741,410
Property and equipment		19,729,999
Other assets		<u>844,669</u>
Total assets		<u>71,711,369</u>
Accounts payable	\$	3,098,597
Accrued expenses		5,707,494
Accrued payroll liabilities		6,805,082
Lease liabilities		23,752,926
Other liabilities		<u>215,644</u>
Total liabilities		<u>39,579,743</u>
Excess of fair value of assets acquired over liabilities assumed	\$	32,131,626
Less consideration	\$	<u>(7,000,000)</u>
	\$	<u>25,131,626</u>
Included within net assets without donor restrictions	\$	18,204,485
Included within net assets with donor restrictions	\$	6,927,141

The following methods were used to determine fair value:

- Property and equipment - fair value was determined using the cost and sales comparison approach.
- Tradenames - 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, 2023 and 2022

NOTE 2 – AFFILIATION AGREEMENT (Continued)

Prior year:

Cornerstone Hospice & Palliative Care, Inc.:

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 combinations. 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 Comerstone 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.
Tradenames - 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, 2023 and 2022

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>2023</u>	<u>2022</u>
Cash and cash equivalents	\$ 33,818,101	\$ 13,957,074
Short-term investments	11,572,539	9,291,149
Patient accounts receivable, net	43,623,346	19,119,599
Capitation receivable	6,516,439	7,099,173
Due from related party	675,980	5,729,953
Pledges receivable, current portion	423,454	480,305
Other current assets	<u>5,396,021</u>	<u>1,717,744</u>
	<u>\$ 102,025,880</u>	<u>\$ 57,394,997</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 Florida based 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 line 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>2023</u>	<u>2022</u>
Medicare	\$ 55,529,123	\$ 35,704,938
Medicaid	11,426,481	8,200,953
Other third-party payors	9,751,401	7,683,526
Less Medicare Periodic Interim Payments (PIP)	(12,776,227)	(14,045,031)
Less implicit price concessions	<u>(20,307,432)</u>	<u>(18,424,787)</u>
	<u>\$ 43,623,346</u>	<u>\$ 19,119,599</u>

(Continued)

CHAPTERS HEALTH SYSTEM, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2023 and 2022

NOTE 5 – ASSETS LIMITED AS TO USE

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

	<u>2023</u>	<u>2022</u>
Cash and cash equivalents	\$ 6,629,801	\$ 3,452,644
Money market funds	1,953,565	60,097
Mutual funds	<u>1,864,123</u>	<u>1,728,286</u>
	10,447,489	5,241,027
Less current portion	<u>(4,839,261)</u>	<u>(3,452,644)</u>
	<u>\$ 5,608,228</u>	<u>\$ 1,788,383</u>

NOTE 6 – INVESTMENTS

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

	<u>2023</u>	<u>2022</u>
Cash and cash equivalents	\$ 859,729	\$ 1,780,247
Money market funds	3,252,303	7,420,132
U.S. government agencies	1,527,559	673,813
Corporate bonds	991,281	258,390
Equity mutual funds	74,242,791	71,095,887
Bond mutual funds	9,802,093	8,818,080
Commodities mutual funds	1,422,439	1,509,974
Real estate fund	1,010,474	943,147
Equity securities	<u>16,175,034</u>	<u>8,956,981</u>
	109,283,703	101,456,651
Less current portion	<u>(11,572,539)</u>	<u>(9,291,149)</u>
	<u>\$ 97,711,164</u>	<u>\$ 92,165,502</u>

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

	<u>2023</u>	<u>2022</u>
Interest and dividends, net of fees	\$ 3,962,063	\$ 3,223,454
Net realized gains on sales of securities	5,655,183	119,521
Net unrealized gains (losses)	<u>8,228,628</u>	<u>(21,661,023)</u>
	<u>\$ 17,845,874</u>	<u>\$ (18,318,048)</u>

(Continued)

NOTE 7 – NOTES RECEIVABLE

Capital Caring: During 2022, 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. In 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 without 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, which occurred in May 2023. 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%.

On closing of the affiliation agreement, the note receivable balance between CHS and Capital Caring was settled. As of May 1, 2023, Capital Caring had a balance outstanding of \$7,000,000, which CHS recognized as consideration paid to Capital Caring as part of the affiliation agreements. CHS and Capital Caring continue to utilize the credit agreement to lend and repay funds between the organizations. The terms did not change post-affiliation. The outstanding balance on the note receivable was \$3,000,000 as of December 31, 2023. As of and subsequent to the Affiliation Event the note receivable eliminates in the consolidated financial statements.

Software company: Capital Caring advanced funds to a software company headquartered in New Orleans, Louisiana. The software company develops computer software for the hospice industry. All advances are to be used solely for business purposes and are stated at unpaid principal balances. The loans are secured by the assets of the borrower and guarantor of the advances. There were no fees involved in these transactions. No new loans will be made to the software company beyond those listed below.

Interest on the loans is recognized over the lives of the loans and is calculated on the outstanding principal balance.

Loan receivable originating in April 2015: \$1,000,000 payable in full in April 2020 or payable upon sale or transfer as defined below; interest accrues quarterly at the 12% (12% at December 31, 2023). An allowance for doubtful accounts in the amount \$1,000,000 has been recorded for the outstanding receivable balance at December 31, 2023.

Loan receivable originating in April 2016 for \$1,500,000 original note was amended several times for a total balance of \$2,970,000; payable in full in February 2021 or payable upon sale or transfer as defined below; interest accrues quarterly at 12% (12% at December 31, 2023). Interest on the amended amounts accrues at an annual interest at of 12%. An allowance for doubtful accounts in the amount \$2,970,000 has been recorded for the outstanding receivable balance at December 31, 2023.

If a sale or transfer of the borrower occurs prior to the loan maturity dates, principal and any unpaid interest is due in full plus a percentage of the gross sale proceeds in excess of \$10,000,000. If no sale or transfer occurs within five years of the origination date, the repayment amount is equal to the principal plus a percentage of the borrower entity's current value based on a multiple of the borrower entity's earnings before interest, depreciation, and amortization.

An allowance for doubtful accounts of \$1,154,265 has been establish for the remaining interest amounts contractually due from the software company as management has determined it is probable the organization may not be able to collect such amounts. Per the related note agreements, Capital Caring can, in the event of default and after notice to the borrower, commence such legal actions or proceedings against the borrower and guarantor, as permitted under the agreement or otherwise at law or at equity.

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CHAPTERS HEALTH SYSTEM, INC. AND AFFILIATES
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NOTE 8 – PROPERTY AND EQUIPMENT

Property and equipment as of December 31 is as follows:

	<u>2023</u>	<u>2022</u>
Land and land improvements	\$ 26,083,826	\$ 15,888,782
Building and leasehold improvements	207,509,257	99,819,814
Furniture, fixtures, and equipment	74,430,027	50,147,656
Vehicles	2,225,084	281,948
Projects in process	960,430	12,459,483
	311,208,624	178,597,683
Less accumulated depreciation	(146,246,334)	(84,628,805)
	\$ 164,962,290	\$ 93,968,878

Projects in process at December 31, 2023 consist primarily of software implementation and general facility upgrades to be placed in service in calendar year 2024. There are not any significant projects planned or commitments entered into.

Depreciation expense for the years ended December 31, 2023 and 2022, was approximately \$11,262,000 and \$9,033,000, respectively. No interest expense was capitalized during 2023 or 2022.

NOTE 9 – LEASES

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, 2023, it is not reasonably certain that CHS will exercise or become subject to such early termination penalties.

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CHAPTERS HEALTH SYSTEM, INC. AND AFFILIATES
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NOTE 9 – LEASES (Continued)

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 consolidated 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.

At December 31, 2023 and 2022, the right-of-use asset related to operating leases was approximately \$50,623,000 and \$28,234,000, respectively, 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 years ended December 31, 2023 and 2022, CHS recorded approximately \$8,278,00 and \$4,560,000, respectively, in lease expense. The weighted-average remaining operating lease life was 8.14 years at December 31, 2023. The weighted average discount rate is 1.60%.

A summary of future operating lease payments at December 31, 2023 is as follows:

A summary of maturities for operating leases at December 31, 2023 is as follows:

2024		\$	9,020,207
2025			8,176,284
2026			7,070,256
2027			6,182,386
2028			5,621,209
Thereafter			22,820,227
Total lease payments			58,890,569
Less: Amount representing interest			(6,633,318)
Present value of lease liabilities		\$	52,257,251

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 expired on April 30, 2023. Management did not extend the lines of credit after April 30, 2023.

In May 2023, Chapters obtained a revolving line of credit with a financial institution. The line has availability of \$7,500,000 and incurs interest at a rate of monthly simple SOFR plus 1.45%. As of December 31, 2023, there was no outstanding balance on the line of credit. The line matures in May 2024.

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CHAPTERS HEALTH SYSTEM, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2023 and 2022

NOTE 11 – LONG-TERM DEBT

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

	<u>2023</u>	<u>2022</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 simple SOFR plus 1.12% (4.79% at December 31, 2023) (Series 2017 Bond).	\$ 9,620,300	\$ 10,749,600
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 simple SOFR plus 1.75% (7.22% at December 31, 2023) due through 2035 (Taxable Loan).	13,256,000	13,679,000
Conventional term loan, with Regions Bank, commencing May 2023, secured by certain assets of CHS, principal maturing in varying amounts, interest payable at 1.75% plus one-month simple SOFR (5.41% at December 31, 2023) due through May 2027	<u>7,160,089</u>	<u>-</u>
	30,036,389	24,428,600
Less current portion of long-term debt	(2,200,646)	(1,552,300)
Less unamortized debt issuance costs	<u>(463,566)</u>	<u>(333,492)</u>
	<u>\$ 27,372,177</u>	<u>\$ 22,542,808</u>

The agreement underlying the bond issues and the 2017 Taxable Loan as described above were modified in May 2023 to change the Obligated Group. The Obligated Group now includes Chapters Health Palliative Care, LLC, Chapters Health Pharmacy, LLC, Chapters Health Staffing, LLC, Chapters Health Home Connect, Inc., Hospice of Okeechobee, and Cornerstone Health Services, LLC. The addition was to add Cornerstone.

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, 2023, 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.

(Continued)

CHAPTERS HEALTH SYSTEM, INC. AND AFFILIATES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 11 – LONG-TERM DEBT (Continued)

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, 2017 Taxable Loan, 2023 Term Loan, and 2023 Revolver, CHS recorded debt issuance costs of approximately \$185,000.

Unamortized debt issuance costs as of December 31, 2023 and 2022, was approximately \$463,000 and \$333,000, respectively, and is included in the non-current portion of long-term debt in the accompanying consolidated balances sheets. Amortization expense was approximately \$60,000 for the years ended December 31, 2023 and 2022 and is included in interest in the accompanying consolidated statements of operations.

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

	Series 2017 & 2023 Bonds & Loans
2024	\$ 2,200,646
2025	2,284,337
2026	2,367,458
2027	6,986,097
2028	1,795,400
Thereafter	14,402,451
	\$ 30,036,389

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 matured on April 1, 2024.

CHS pays a fixed rate of 1.45% and receives a variable-rate payment based on 67% of SOFR for one swap and pays a fixed rate of 2.182% and receives a variable-rate payment based on SOFR for the other swap. At December 31, 2023 and 2022, the notional amount of these swap agreements totaled approximately \$22,876,000 and \$24,429,000, respectively.

NOTE 12 – EMPLOYEE BENEFIT PLANS

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.

(Continued)

NOTE 12 – EMPLOYEE BENEFIT PLANS (Continued)

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 \$2,117,000 and \$1,851,000 at December 31, 2023 and 2022, 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 \$1,021,000 and \$697,000 for the years ended December 31, 2023 and 2022, respectively.

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 \$2,247,000 and \$1,829,000 for the years ended December 31, 2023 and 2022, 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 and are included in salaries and benefits on the consolidated statements of operations. Cornerstone migrated to the CHS plan on October 1, 2022.

Hope has established 3 retirement plans under Section 403(b) of the Internal Revenue Code whereby eligible employees may elect to defer a portion of their salary. Two of the plans only allow for employee contributions. Hope does not contribute to either of those two plans. The third plan is a retirement plan under Section 403(b) of the Internal Revenue Code in which eligible employees who are at least 21 years of age and have one year of service. This retirement plan is solely funded by Hope, at the discretion of the board of directors and is determined annually. Employer contributions to the plan were approximately \$798,000 for the period of March 1, 2023 through December 31, 2023, and are included in salaries and benefits on the consolidated statements of operations.

Capital Caring 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. Capital Caring matches employee contributions dollar for dollar up to 1% of each eligible employee's salary. Employer contributions to the plan were approximately \$158,000 for the period of May 1, 2023 through December 31, 2023, and are included in salaries and benefits on the consolidated statements of operations.

(Continued)

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 December 31, 2023 and 2022 amounted to \$7,925,900 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 within the changes in net assets with donor restrictions.

During the period ended December 31, 2023 and 2022, Cornerstone Foundation made grants to Cornerstone totaling approximately \$1,500,000 and \$5,619,000, respectively to provide funding for certain programs of Cornerstone. Cornerstone Foundation owed Cornerstone \$536,633 and \$1,492,303 at December 31, 2023 and 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, 2023 and 2022.

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 \$1,299,000 and \$632,000 at December 31, 2023 and 2022, 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, 2023 and 2022, per individual is maintained through a commercial excess coverage policy. Estimated accruals for claims incurred but not yet reported totaled approximately \$2,092,000 and \$1,420,000 at December 31, 2023 and 2022, 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 \$20,819,000 and \$10,512,000 in expense related to self-insured employee health benefits in the accompanying consolidated statements of operations during the years ended December 31, 2023 and 2022, respectively.

(Continued)

NOTE 15 – SELF-FUNDED INSURANCE (Continued)

Cornerstone was self-insured for a portion of employee health benefits and migrated to CHS' plan in October 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 during the period of April 1 through December 31, 2022.

Capital Caring is self-insured for employee health care to provide medical and other health care benefits to eligible employees and covered dependents. Estimated accruals for claims incurred but not yet reported totaled approximately \$722,000 at December 31, 2023 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. Capital Caring incurred approximately \$3,179,000 in expense related to self-insured employee health benefits in the accompanying consolidated statements of operations during the period of May 1, 2023 through December 31, 2023.

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 \$2,463,000 and \$1,613,000 at December 31, 2023 and 2022, respectively.

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 \$4,065,215 and \$440,509 for the years ended December 31, 2023 and 2022, 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 \$17.52 and \$17.70 per member per month for the years ended December 31, 2023 and 2022, respectively.

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NOTE 17 – NET ASSETS WITH DONOR RESTRICTIONS

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

	<u>2023</u>	<u>2022</u>
Beneficial interest in the net assets of Cornerstone Foundation	\$ 7,925,900	\$ 6,993,965
For the operations of LifePath Hospice	4,178,730	3,125,461
For the operations of Good Shepherd Hospice	2,254,725	2,157,307
For the operations of Hernando-Pasco Hospice	1,805,032	732,700
For the operations of Capital Caring Hospice	3,492,559	-
For the operations of Hope Healthcare	223,591	-
Endowment – LifePath Hospice	844,605	844,605
Endowment – Good Shepherd Hospice	166,994	166,994
Endowment – Capital Caring	2,481,515	-
For the operations of Chapters Health Foundation	<u>(56,405)</u>	<u>407,769</u>
	<u>\$ 23,317,246</u>	<u>\$ 14,428,801</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.

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 derivatives, which are comprised of two interest rate swap agreements, are 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).

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

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, 2023 and 2022, 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.

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

	Fair Value Measurement at December 31, 2023			
	Level 1	Level 2	Level 3	Total
Assets				
Assets limited as to use:				
Cash and cash equivalents	\$ 6,629,801	\$ -	\$ -	\$ 6,629,801
Money market funds	1,953,565	-	-	1,953,565
Mutual funds	1,864,123	-	-	1,864,123
Total assets limited as to use	<u>10,447,489</u>	<u>-</u>	<u>-</u>	<u>10,447,489</u>
Investments				
Cash and cash equivalents	859,729	-	-	859,729
Money market funds	3,252,303	-	-	3,252,303
U.S. government agencies	-	1,527,559	-	1,527,559
Corporate bonds	-	991,281	-	991,281
Equity mutual funds	74,242,791	-	-	74,242,791
Bond mutual funds	9,802,093	-	-	9,802,093
Commodities mutual funds	1,422,439	-	-	1,422,439
Real estate fund	16,175,034	-	-	16,175,034
Equity securities	1,010,474	-	-	1,010,474
Total investments	<u>106,764,863</u>	<u>2,518,840</u>	<u>-</u>	<u>109,283,703</u>
Interest rate swap agreements	<u>-</u>	<u>282,822</u>	<u>-</u>	<u>282,822</u>
Interest in net assets of Cornerstone Foundation	<u>-</u>	<u>-</u>	<u>7,925,900</u>	<u>7,925,900</u>
Total assets	<u>\$ 117,212,352</u>	<u>\$ 2,801,662</u>	<u>\$ 7,925,900</u>	<u>\$ 127,939,914</u>

(Continued)

CHAPTERS HEALTH SYSTEM, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2023 and 2022

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

	Fair Value Measurement at December 31, 2022			
	Level 1	Level 2	Level 3	Total
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	1,728,286	-	-	1,728,286
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	8,956,981	-	-	8,956,981
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>

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 Founda
Assets at January 1, 2023	\$ 6,993,965
Change in interest in net assets of Cornerstone Foundation	<u>931,935</u>
Assets at December 31, 2023	<u>\$ 7,925,900</u>

(Continued)

CHAPTERS HEALTH SYSTEM, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2023 and 2022

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>Year ended December 31, 2023</u>	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total Expenses 2023</u>
Salaries and benefits	\$ 299,526,441	\$ 6,663,622	\$ 5,798,112	\$ 311,988,176
Purchased services	44,733,195	1,194,317	932,357	46,859,869
Durable medical equipment, supplies and drugs	35,448,878	956,932	702,032	37,107,842
Medical claims expense	32,857,719	362,227	633,051	33,852,997
Insurance and other	57,729,584	1,389,153	1,093,302	60,212,040
Depreciation and amortization	11,113,640	220,485	217,823	11,551,948
Interest	2,164,514	64,673	39,971	2,269,158
Affiliation expenses	-	1,188,528	-	1,188,528
	<u>\$ 483,573,972</u>	<u>\$ 12,039,937</u>	<u>\$ 9,416,649</u>	<u>\$ 505,030,558</u>
<u>Year ended December 31, 2022</u>	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Expenses 2022</u>
Salaries and benefits	\$ 135,224,058	\$ 26,684,925	\$ 2,837,125	\$ 164,746,108
Purchased services	21,612,084	463,010	267,358	22,342,452
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
Affiliation expenses	-	375,000	-	375,000
	<u>\$ 233,290,479</u>	<u>\$ 40,818,903</u>	<u>\$ 5,309,104</u>	<u>\$ 279,418,486</u>

SUPPLEMENTARY INFORMATION

CHAPTERS HEALTH SYSTEM, INC. AND AFFILIATES
OBLIGATED GROUP BALANCE SHEET
December 31, 2023

	Chapters Health System	Cornerstone	LifePath Hospice	Good Shepard Hospice	Foundation	CareNu	Hernando- Pasco Hospice	Other	Total Before Eliminations	Eliminations Total	Obligated Group Total
ASSETS											
Current assets											
Cash and cash equivalents	\$ 5,622,572	\$ 34,271	\$ -	\$ -	\$ 1,404,159	\$ 9,137,080	\$ 1,000	\$ (390)	\$ 16,198,692	\$ -	\$ 16,198,692
Short-term investments	2,888,243	-	-	-	230,712	491,436	-	-	3,610,391	-	3,610,391
Assets limited to use, current portion	-	-	-	-	4,839,261	-	-	-	4,839,261	-	4,839,261
Patient accounts receivable, net	-	6,421,135	11,043,660	2,841,263	-	-	2,866,451	931,665	24,104,174	-	24,104,174
Capitation receivable	-	-	-	-	-	6,516,439	-	-	6,516,439	-	6,516,439
Due from related party	2,566,729	536,633	-	-	-	-	-	249	3,103,611	(2,002,841)	1,100,770
Note receivable	3,000,000	-	-	-	-	-	-	-	3,000,000	-	3,000,000
Pledges receivable, current portion	-	-	-	-	412,084	-	-	-	412,084	-	412,084
Interest rate swap agreements	282,822	-	-	-	-	-	-	-	282,822	-	282,822
Other current assets	9,360,197	3,867,629	41,928	2,723	150,286	1,642,030	60,315	287,694	15,412,802	-	15,412,802
Total current assets	23,720,563	10,859,668	11,085,588	2,843,986	7,036,502	17,786,985	2,927,766	1,219,218	77,480,276	(2,002,841)	75,477,435
Assets limited as to use, net	-	-	-	-	1,963,314	-	-	-	1,963,314	-	1,963,314
Pledges receivable, net	-	-	-	-	1,407,974	-	-	-	1,407,974	-	1,407,974
Long-term investments	84,944,211	-	-	-	4,737,146	8,029,807	-	-	97,711,164	-	97,711,164
Property and equipment, net	49,260,215	41,396,665	-	-	438,440	-	-	2,585	91,097,905	-	91,097,905
Right-of-use assets	13,664,489	5,198,419	2,242,430	16,018	1,177,816	-	394,819	1,430,297	24,124,288	-	24,124,288
Interest in net assets of affiliates	-	-	20,231,079	14,174,845	-	-	3,977,394	-	38,383,318	(38,383,318)	-
Interest in net assets of related party	16,142,309	7,925,900	-	-	-	-	-	-	24,068,209	(16,142,309)	7,925,900
Goodwill and intangibles, net	16,605,428	1,460,000	-	-	-	-	-	-	18,065,428	-	18,065,428
Other assets	2,330,522	-	-	-	-	17,500	-	-	2,348,022	-	2,348,022
Total assets	\$ 206,667,737	\$ 66,840,652	\$ 33,559,097	\$ 17,034,849	\$ 16,761,192	\$ 25,834,292	\$ 7,299,979	\$ 2,652,100	\$ 376,649,898	\$ (56,528,468)	\$ 320,121,430

(Continued)

CHAPTERS HEALTH SYSTEM, INC. AND AFFILIATES
OBLIGATED GROUP BALANCE SHEET
December 31, 2023

	Chapters Health System	Cornerstone	LifePath Hospice	Good Shepard Hospice	Foundation	CareNu	Hernando- Pasco Hospice	Other	Total Before Eliminations	Eliminations Total	Consolidated Total
LIABILITIES AND NET ASSETS											
Current liabilities											
Accounts payable and accrued expenses	\$ 4,600,735	\$ 1,466,566	\$ 675,404	\$ 366,890	\$ 744,882	\$ 1,784,682	\$ 415,076	\$ 183,161	\$ 10,237,396	\$ -	\$ 10,237,396
Accrued employee compensation and related benefits	8,931,143	2,524,551	1,505,778	810,373	191,397	175,838	901,021	56,634	15,096,735	-	15,096,735
Estimate patient care expenses payable	-	3,708,410	2,519,413	1,456,039	-	-	885,257	215,051	8,784,170	-	8,784,170
Third-party medical claim expense	-	-	-	-	-	2,462,980	-	-	2,462,980	-	2,462,980
Due to related party	-	-	-	-	340,925	1,661,916	-	-	2,002,841	(2,002,841)	-
Lease liabilities, current	1,968,560	682,950	457,629	16,303	623,663	-	185,747	356,925	4,291,777	-	4,291,777
Current portion of long-term debt	2,200,646	-	-	-	-	-	-	-	2,200,646	-	2,200,646
Current portion of annuity obligations	-	-	-	-	34,285	-	-	-	34,285	-	34,285
Third-party settlements	-	775,044	487,345	577,824	-	-	84,429	14,502	1,939,144	-	1,939,144
Total current liabilities	17,701,084	9,157,521	5,645,569	3,227,429	1,935,152	6,085,416	2,471,530	826,273	47,049,974	(2,002,841)	45,047,133
Long-term debt, net of current portion and debt issuance costs											
	27,372,177	-	-	-	-	-	-	-	27,372,177	-	27,372,177
Lease liabilities, net	12,756,515	4,647,059	1,847,243	-	596,852	-	219,855	1,110,883	21,178,407	-	21,178,407
Annuity obligations, net	-	-	-	-	149,795	-	-	-	149,795	-	149,795
Other long-term liabilities	2,887,620	13,430	-	-	-	-	-	-	2,901,050	-	2,901,050
Total liabilities	60,717,396	13,818,010	7,492,812	3,227,429	2,681,799	6,085,416	2,691,385	1,937,156	98,651,403	(2,002,841)	96,648,562
Net assets											
Net assets without donor restriction	145,950,341	45,096,742	20,994,115	11,385,701	4,945,377	23,101,575	2,803,562	714,944	254,992,357	(45,226,706)	209,765,651
Noncontrolling interest	-	-	-	-	-	(3,352,699)	-	-	(3,352,699)	-	(3,352,699)
Total Net assets without donor restriction	145,950,341	45,096,742	20,994,115	11,385,701	4,945,377	19,748,876	2,803,562	714,944	251,639,658	(45,226,706)	206,412,952
Net assets with donor restrictions	-	7,925,900	5,072,170	2,421,719	9,134,016	-	1,805,032	-	26,358,837	(9,298,921)	17,059,916
Total net assets	145,950,341	53,022,642	26,066,285	13,807,420	14,079,393	19,748,876	4,608,594	714,944	277,998,495	(54,525,627)	223,472,868
	\$ 206,667,737	\$ 66,840,652	\$ 33,559,097	\$ 17,034,849	\$ 16,761,192	\$ 25,834,292	\$ 7,299,979	\$ 2,652,100	\$ 376,649,898	\$ (56,528,468)	\$ 320,121,430

See accompanying independent auditor's report.

CHAPTERS HEALTH SYSTEM, INC. AND AFFILIATES
CONSOLIDATING BALANCE SHEET
December 31, 2023

	Obligated Group	Hope Healthcare	Capital Caring Hospice	Other	Total Before Eliminations	Eliminations Total	Consolidated Total
ASSETS							
Current assets							
Cash and cash equivalents	\$ 16,198,692	\$ 10,453,924	\$ 6,875,674	\$ 289,811	\$ 33,818,101	\$ -	\$ 33,818,101
Short-term investments	3,610,391	7,962,148	-	-	11,572,539	-	11,572,539
Assets limited to use, current portion	4,839,261	-	-	-	4,839,261	-	4,839,261
Patient accounts receivable, net	24,104,174	8,791,271	10,388,811	339,090	43,623,346	-	43,623,346
Capitation receivable	6,516,439	-	-	-	6,516,439	-	6,516,439
Due from related party	1,100,770	-	169,993	-	1,270,763	(594,783)	675,980
Note receivable	3,000,000	-	-	-	3,000,000	(3,000,000)	-
Pledges receivable, current portion	412,084	-	11,370	-	423,454	-	423,454
Interest rate swap agreements	282,822	-	-	-	282,822	-	282,822
Other current assets	15,412,802	3,136,091	950,871	47,673	19,547,437	-	19,547,437
Total current assets	75,477,435	30,343,434	18,396,719	676,574	124,894,162	(3,594,783)	121,299,379
Assets limited as to use, net	1,963,314	-	3,644,914	-	5,608,228	-	5,608,228
Pledges receivable, net	1,407,974	-	2,259,114	-	3,667,088	-	3,667,088
Long-term investments	97,711,164	-	-	-	97,711,164	-	97,711,164
Property and equipment, net	91,097,905	54,935,261	18,929,124	-	164,962,290	-	164,962,290
Right-of-use assets	24,124,288	3,823,101	22,675,432	-	50,622,821	-	50,622,821
Interest in net assets of related party	7,925,900	-	-	-	7,925,900	-	7,925,900
Goodwill and intangibles, net	18,065,428	5,375,000	7,200,000	-	30,640,428	-	30,640,428
Other assets	2,348,022	-	11,841	-	2,359,863	-	2,359,863
Total assets	\$ 320,121,430	\$ 94,476,796	\$ 73,117,144	\$ 676,574	\$ 488,391,944	\$ (3,594,783)	\$ 484,797,161

(Continued)

CHAPTERS HEALTH SYSTEM, INC. AND AFFILIATES
CONSOLIDATING BALANCE SHEET
December 31, 2023

	Obligated Group	Hope Healthcare	Capital Caring Hospice	Other	Total Before Eliminations	Eliminations Total	Consolidated Total
LIABILITIES AND NET ASSETS							
Current liabilities							
Accounts payable and accrued expenses	\$ 10,237,396	\$ 5,267,853	\$ 6,069,539	\$ 64,688	\$ 21,639,476	\$ -	\$ 21,639,476
Accrued employee compensation and related benefits	15,096,735	4,434,489	5,506,679	94,280	25,132,183	-	25,132,183
Estimate patient care expenses payable	8,784,170	1,135,711	2,734,755	-	12,654,636	-	12,654,636
Third-party medical claim expense	2,462,980	-	-	-	2,462,980	-	2,462,980
Due to related party	-	335,227	-	259,556	594,783	(594,783)	-
Lease liabilities, current	4,291,777	1,066,835	2,190,292	-	7,548,904	-	7,548,904
Current portion of long-term debt	2,200,646	-	3,000,000	-	5,200,646	(3,000,000)	2,200,646
Current portion of annuity obligations	34,285	-	75,170	-	109,455	-	109,455
Third-party settlements	1,939,144	(795,725)	384,521	-	1,527,940	-	1,527,940
Total current liabilities	45,047,133	11,444,390	19,960,956	418,524	76,871,003	(3,594,783)	73,276,220
Long-term debt, net of current portion and debt issuance costs							
	27,372,177	-	-	-	27,372,177	-	27,372,177
Lease liabilities, net	21,178,407	2,802,414	20,727,526	-	44,708,347	-	44,708,347
Annuity obligations, net	149,795	217,757	-	-	367,552	-	367,552
Other long-term liabilities	2,901,050	90,196	20,473	-	3,011,719	-	3,011,719
Total liabilities	96,648,562	14,554,757	40,708,955	418,524	152,330,798	(3,594,783)	148,736,015
Net assets							
Net assets without donor restriction	209,765,651	79,698,448	26,434,115	198,385	316,096,599	-	316,096,599
Noncontrolling interest	(3,352,699)	-	-	-	(3,352,699)	-	(3,352,699)
Total Net assets without donor restriction	206,412,952	79,698,448	26,434,115	198,385	312,743,900	-	312,743,900
Net assets with donor restrictions	17,059,916	223,591	5,974,074	59,665	23,317,246	-	23,317,246
Total net assets	223,472,868	79,922,039	32,408,189	258,050	336,061,146	-	336,061,146
	\$ 320,121,430	\$ 94,476,796	\$ 73,117,144	\$ 676,574	\$ 488,391,944	\$ (3,594,783)	\$ 484,797,161

See accompanying notes to consolidated financial statements

CHAPTERS HEALTH SYSTEM, INC. AND AFFILIATES
OBLIGATED GROUP STATEMENT OF OPERATIONS
Year ended December 31, 2023

	Chapters Health System	Cornerstone	LifePath Hospice	Good Shepard Hospice	Foundation	CareNu	Hernando- Pasco Hospice	Other	Total Before Eliminations	Eliminations Total	Obligated Group Total
Net assets without donor restrictions											
Revenue and other support											
Net patient service revenue	\$ -	\$ 93,301,321	\$ 85,024,237	\$ 38,225,588	\$ -	\$ -	\$ 47,284,396	\$ 5,400,232	\$ 269,235,774	\$ -	\$ 269,235,774
Capitated non risk revenue	-	-	-	-	-	38,982,807	-	-	38,982,807	-	38,982,807
Contributions	-	1,500,000	1,182,482	628,200	27,340	-	886,872	73,908	4,288,812	(2,771,472)	1,527,340
Net assets released from restrictions used for operations	-	-	-	-	6,825,591	-	-	-	6,825,591	-	6,825,591
Other operating revenue	913,652	-	-	10,000	2,824,941	1,971,790	-	18,751,194	24,471,577	(17,744,922)	6,726,655
Intercompany cost allocations	82,135,411	-	-	-	-	-	-	-	82,135,411	(81,439,543)	695,868
Total revenue, gains and support	83,049,063	94,801,321	86,206,729	38,863,788	9,677,872	40,954,597	48,171,268	24,225,334	425,949,972	(101,955,937)	323,994,035
Expenses											
Salaries and benefits	45,753,164	57,167,709	42,996,666	24,870,247	3,043,405	3,769,105	27,303,665	21,075,214	225,979,175	(11,954,241)	214,024,934
Purchased services	756,048	8,264,781	6,992,506	2,535,639	227,610	1,714,097	2,774,068	265,256	23,530,005	-	23,530,005
Insurance and other	26,636,351	16,309,809	17,559,536	13,430,921	2,294,399	769,185	12,317,328	3,045,502	92,363,031	(52,624,366)	39,738,665
Durable medical equipment, medical supplies, and drugs	-	8,680,230	7,006,742	3,485,273	-	-	4,324,103	2,543,797	26,040,145	(5,790,682)	20,249,463
Medical claims expense	-	-	-	-	-	33,852,997	-	-	33,852,997	-	33,852,997
Depreciation and amortization	8,535,447	80,000	-	-	-	-	-	-	8,615,447	-	8,615,447
Interest	1,193,221	-	-	-	-	18,337	-	-	1,211,558	-	1,211,558
Contributions to affiliates	-	-	-	-	2,771,472	-	-	-	2,771,472	(2,771,472)	-
Affiliation expenses	1,188,528	-	-	-	-	-	-	-	1,188,528	-	1,188,528
Intercompany cost allocations	-	4,385,237	11,817,738	6,079,374	300,000	845,041	5,669,176	414,479	29,511,045	(28,815,177)	695,868
Total expenses	84,062,759	94,887,766	86,373,188	50,401,454	8,836,886	40,968,762	52,388,340	27,344,248	445,083,403	(101,955,938)	343,107,465
Income (loss) from operations	(1,013,696)	(86,445)	(166,459)	(11,537,666)	1,040,986	(14,165)	(4,217,072)	(3,118,914)	(18,113,431)	1	(19,113,430)
Nonoperating revenues and expenses											
Note receivable converted to consideration at affiliation date	(7,000,000)	-	-	-	-	-	-	-	(7,000,000)	-	(7,000,000)
Gain (loss) on sale of property and equipment	996,201	-	-	-	-	-	-	-	996,201	-	996,201
Loss on disposal of license	(1,510,134)	-	-	-	-	-	-	-	(1,510,134)	-	(1,510,134)
Investment income (loss)	14,813,484	-	-	-	656,996	84,131	-	-	15,354,611	-	15,354,611
Change in fair value of interest rate swap agreements	(395,565)	-	-	-	-	-	-	-	(395,565)	-	(395,565)
Total nonoperating income	6,703,986	-	-	-	656,996	84,131	-	-	7,445,113	-	7,445,113
Net asset with donor restrictions											
Contributions	\$ -	\$ -	\$ -	\$ -	\$ 8,293,617	\$ -	\$ -	\$ -	\$ 8,293,617	\$ -	\$ 8,293,617
Investment income	-	-	-	-	231,154	-	-	-	231,154	-	231,154
Change in beneficial interest	-	931,935	1,102,104	97,418	-	-	1,072,333	-	3,203,790	(2,271,855)	931,935
Net assets released from restrictions	-	-	-	-	(6,825,591)	-	-	-	(6,825,591)	-	(6,825,591)
Change in net assets with donor restrictions before other changes	-	931,935	1,102,104	97,418	1,699,180	-	1,072,333	-	4,902,970	(2,271,855)	2,631,115

See accompanying notes to consolidated financial statements

CHAPTERS HEALTH SYSTEM, INC. AND AFFILIATES
CONSOLIDATING STATEMENT OF OPERATIONS
Year ended December 31, 2023

	Obligated Group	Hope Healthcare	Capital Caring Hospice	Other	Total Before Eliminations	Eliminations Total	Consolidated Total
Net assets without donor restrictions							
Revenue and other support							
Net patient service revenue	\$ 269,235,774	\$ 98,987,968	\$ 53,864,742	\$ 1,154,528	\$ 423,243,012	\$ -	\$ 423,243,012
Capitated non risk revenue	38,982,807	-	-	-	38,982,807	-	38,982,807
Contributions	1,527,340	1,100,789	3,375,289	15,085	6,018,503	-	6,018,503
Net assets released from restrictions used for operations	6,825,591	1,225,963	1,456,810	134,151	9,642,515	-	9,642,515
Other operating revenue	6,726,655	2,646,462	30,608	236,531	9,640,256	-	9,640,256
Intercompany cost allocations	695,868	-	-	-	695,868	(695,868)	-
Total revenue, gains and support	323,994,035	103,961,182	58,727,449	1,540,295	488,222,961	(695,868)	487,527,093
Expenses							
Salaries and benefits	214,024,934	57,956,417	37,754,657	2,252,168	311,988,176	-	311,988,176
Purchased services	23,530,005	22,388,295	857,058	84,511	46,859,869	-	46,859,869
Insurance and other	39,738,665	8,996,044	11,167,057	310,274	60,212,040	-	60,212,040
Durable medical equipment, medical supplies, and drugs	20,249,463	12,058,484	4,792,679	7,216	37,107,842	-	37,107,842
Medical claims expense	33,852,997	-	-	-	33,852,997	-	33,852,997
Depreciation and amortization	8,615,447	2,151,041	785,460	-	11,551,948	-	11,551,948
Interest	1,211,558	375,800	681,711	89	2,269,158	-	2,269,158
Affiliation expenses	1,188,528	-	-	-	1,188,528	-	1,188,528
Intercompany cost allocations	695,868	-	-	-	695,868	(695,868)	-
Total expenses	343,107,465	103,926,081	56,038,622	2,654,258	505,726,426	(695,868)	505,030,558
Income (loss) from operations	(19,113,430)	35,101	2,688,827	(1,113,963)	(17,503,465)	-	(17,503,465)
Nonoperating revenues and expenses							
Excess of fair value of assets acquired over liabilities assumed in acquisition of Hope Hospice and Community Services, Inc. (Hope) and Capital Caring Health and its affiliates (Capital) (See Note 2)	-	80,024,844	16,794,674	1,409,811	98,229,329	-	98,229,329
Note receivable converted to consideration at affiliation date	(7,000,000)	-	7,000,000	-	-	-	-
Gain (loss) on sale of property and equipment	996,201	(2,454,408)	(165,371)	-	(1,623,578)	-	(1,623,578)
Loss on disposal of license	(1,510,134)	-	-	-	(1,510,134)	-	(1,510,134)
Investment income (loss)	15,354,611	2,092,911	115,985	-	17,563,507	-	17,563,507
Change in fair value of interest rate swap agreements	(395,565)	-	-	-	(395,565)	-	(395,565)
Total nonoperating income	7,445,113	79,663,347	23,745,288	1,409,811	112,263,559	-	112,263,559
Change in net assets without donor restrictions before other changes	(11,668,317)	79,698,448	26,434,115	295,848	94,760,094	-	94,760,094
Net asset with donor restrictions							
Excess of fair value of assets acquired over liabilities assumed in acquisition of Hope Hospice and Community Services, Inc. (Hope) and Capital Caring Health and its affiliates (Capital) (See Note 2)	-	236,380	6,832,680	94,461	7,163,521	-	7,163,521
Contributions	8,293,617	1,213,174	546,991	99,355	10,153,137	-	10,153,137
Change in beneficial interest	931,935	-	-	-	931,935	-	931,935
Investment income	231,154	-	51,213	-	282,367	-	282,367
Net assets released from restrictions	(6,825,591)	(1,225,963)	(1,456,810)	(134,151)	(9,642,515)	-	(9,642,515)
Change in net assets with donor restrictions before other changes	2,631,115	223,591	5,974,074	59,665	8,888,445	-	8,888,445

See accompanying independent auditor's report.

CHAPTERS HEALTH SYSTEM, INC. AND AFFILIATES
OBLIGATED GROUP STATEMENT OF CHANGES IN NET ASSETS
Year ended December 31, 2023

	Chapters Health System	Cornerstone	LifePath Hospice	Good Shepard Hospice	Foundation	CareNu	Hernando- Pasco Hospice	Other	Total Before Eliminations	Eliminations Total	Obligated Group Total
Net assets without donor restrictions - December 31, 2022	\$ 148,623,213	\$ 56,303,445	\$ 18,100,482	\$ 12,209,840	\$ 3,247,395	\$ 5,486,831	\$ 3,143,824	\$ 2,000,696	\$ 249,115,726	\$ (29,084,398)	\$ 220,031,328
Change in net assets without donor restrictions before other changes	5,690,290	(86,445)	(166,459)	(11,537,666)	1,697,982	69,966	(4,217,072)	(3,118,914)	(11,668,318)	1	(11,668,317)
Net asset transfer	(8,363,162)	(11,120,258)	3,060,092	10,713,527	-	359,717	3,876,810	1,833,162	359,888	-	359,888
Member distributions	-	-	-	-	-	(3,079,562)	-	-	(3,079,562)	-	(3,079,562)
Additional paid in capital	-	-	-	-	-	16,142,309	-	-	16,142,309	(16,142,309)	-
Change in non-controlling interest	-	-	-	-	-	769,615	-	-	769,615	-	769,615
	(8,363,162)	(11,120,258)	3,060,092	10,713,527	-	14,192,079	3,876,810	1,833,162	14,192,250	(16,142,309)	(1,950,059)
Change in net assets without donor restrictions	(2,672,872)	(11,206,703)	2,893,633	(824,139)	1,697,982	14,262,045	(340,262)	(1,285,752)	2,523,932	(16,142,308)	(13,618,376)
Net assets without donor restrictions - December 31, 2023	<u>\$ 145,950,341</u>	<u>\$ 45,096,742</u>	<u>\$ 20,994,115</u>	<u>\$ 11,385,701</u>	<u>\$ 4,945,377</u>	<u>\$ 19,748,876</u>	<u>\$ 2,803,562</u>	<u>\$ 714,944</u>	<u>\$ 251,639,658</u>	<u>\$ (45,226,706)</u>	<u>\$ 206,412,952</u>
Net assets with donor restrictions - December 31, 2022	\$ -	\$ 6,993,965	\$ 3,970,066	\$ 2,324,301	\$ 7,434,836	\$ -	\$ 732,699	\$ -	\$ 21,455,867	\$ (7,027,066)	\$ 14,428,801
Change in net assets with donor restrictions before other changes	-	931,935	1,102,104	97,418	1,699,180	-	1,072,333	-	4,902,970	(2,271,855)	2,631,115
Net assets with donor restrictions - December 31, 2023	<u>\$ -</u>	<u>\$ 7,925,900</u>	<u>\$ 5,072,170</u>	<u>\$ 2,421,719</u>	<u>\$ 9,134,016</u>	<u>\$ -</u>	<u>\$ 1,805,032</u>	<u>\$ -</u>	<u>\$ 26,358,837</u>	<u>\$ (9,298,921)</u>	<u>\$ 17,059,916</u>

See accompanying independent auditor's report.

CHAPTERS HEALTH SYSTEM, INC. AND AFFILIATES
CONSOLIDATING STATEMENT OF CHANGES IN NET ASSETS
Year ended December 31, 2023

	Obligated Group	Hope Healthcare	Capital Caring Hospice	Other	Total Before Eliminations	Eliminations Total	Consolidated Total
Net assets without donor restrictions - December 31, 2022	\$ 220,031,328	\$ -	\$ -	\$ 262,425	\$220,293,753	\$ -	\$220,293,753
Change in net assets without donor restrictions before other changes	(11,668,317)	79,698,448	26,434,115	295,848	94,760,094	-	94,760,094
Net asset transfer	359,888	-	-	(359,888)	-	-	-
Member distributions	(3,079,562)	-	-	-	(3,079,562)	-	(3,079,562)
Change in non-controlling interest	769,615	-	-	-	769,615	-	769,615
	<u>(1,950,059)</u>	<u>-</u>	<u>-</u>	<u>(359,888)</u>	<u>(2,309,947)</u>	<u>-</u>	<u>(2,309,947)</u>
Change in net assets without donor restrictions	<u>(13,618,376)</u>	<u>79,698,448</u>	<u>26,434,115</u>	<u>(64,040)</u>	<u>92,450,147</u>	<u>-</u>	<u>92,450,147</u>
Net assets without donor restrictions - December 31, 2023	<u>\$ 206,412,952</u>	<u>\$ 79,698,448</u>	<u>\$ 26,434,115</u>	<u>\$ 198,385</u>	<u>\$312,743,900</u>	<u>\$ -</u>	<u>\$312,743,900</u>
Net assets with donor restrictions - December 31, 2022	\$ 14,428,801	\$ -	\$ -	\$ -	\$ 14,428,801	\$ -	\$ 14,428,801
Change in net assets with donor restrictions before other changes	<u>2,631,115</u>	<u>223,591</u>	<u>5,974,074</u>	<u>59,665</u>	<u>8,888,445</u>	<u>-</u>	<u>8,888,445</u>
Net assets with donor restrictions - December 31, 2023	<u>\$ 17,059,916</u>	<u>\$ 223,591</u>	<u>\$ 5,974,074</u>	<u>\$ 59,665</u>	<u>\$ 23,317,246</u>	<u>\$ -</u>	<u>\$ 23,317,246</u>

See accompanying independent auditor's report.

CHAPTERS HEALTH SYSTEM, INC. AND AFFILIATES
NOTE TO CONSOLIDATING FINANCIAL STATEMENTS
Year ended December 31, 2023

NOTE 1 – CONSOLIDATING DETAIL

The accompanying consolidating balance sheet and consolidating statement of operations 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 CNU are comprised of CNU, Assurity Direct Contracting Entity, Inc., and eliminations between the two companies.

The amounts included in other within the Obligated Group includes: Chapters Health Palliative Care, LLC, Chapters Health Pharmacy, LLC, Chapters Health Staffing, LLC, Chapters Health Home Connect, Inc., Hospice of Okeechobee, and Cornerstone Health Services, LLC.

The amounts included in Capital Caring includes: Capital Caring Health and Capital Hospice.

The amounts included in other that are not in the Obligated Group are comprised of Allcare Medical of Florida, Care Partners, LLC, Achieve Home Care, LLC, Capital Caring Health, Capital Palliative Care Consultants, Capital Caring Stay at Home Services, Inc., and Capital Caring Advanced Illness Services, Inc.

See accompanying independent auditor's report.