

		BETA	AL241025	7/1/2024 - 7/1/2025
Liability				
Any Auto	\$ 0,000,000			
Included Motorist	\$ 1,000,000			
Medical Payments	\$ 5,000			
Decreases				
Comprehensive	\$ 250			
Co-insure	\$ 500			
Liability				
Employee Theft	\$ 150,000	\$ 5,000	Travelers	107283125
ERISA Fidelity	\$ 0,000,000			
Forgery or Alteration	\$ 50,000	\$ 1,000		
On Premises	\$ 50,000	\$ 1,000		
In Transit	\$ 50,000	\$ 1,000		
Money Orders and Counterfeit Money	\$ 50,000	\$ 1,000		
Computer Fraud	\$ 100,000	\$ 1,000		
Computer & Data Restoration Expense	\$ 50,000	\$ 1,000		
Funds Transfer Fraud	\$ 100,000	\$ 1,000		
Personal Accounts Forgery or Alteration	\$ 50,000	\$ 1,000		
Identity Fraud Expense Reimbursement	\$ 15,000			
Claim Expense	\$ 5,000			
Liability				
Combined Aggregate	\$ 2,000,000		rudson	499412243000104
Directors and Officers				
Aggregate	\$ 2,000,000	\$ 25,000		
Additional Side A Limit	\$ 100,000			
Employment Practices - Liability				
Aggregate	\$ 2,500,000	\$ 50,000		
Workplace Violence Expenses Sublimit	\$ 750,000	\$ -		
Wage and Hour Subjects	\$ 100,000	\$ -		
Immigration Claims Sublimit	\$ 100,000	\$ 50,000		
Financial Liability				
Aggregate	\$ 2,000,000	\$ -		
Settlement Program Sublimit	\$ 100,000	\$ 25,000		
HIPAA Sublimit	\$ 25,000	\$ -		
Liability				
General Aggregate Limit	\$ 1,000,000	\$ 15,000	Bentley	AG5462040001
Per-Occurrence - In Addition to Aggregate	\$ 1,000,000	\$ 15,000		
Business Interruption Loss	\$ 1,000,000	3 hours		
Dependent Business Loss	\$ 100,000	\$ 15,000		
Cyber Extortion	\$ 1,000,000	\$ 15,000		
Data Recovery Costs	\$ 1,000,000	\$ 15,000		
Data & Network Liability	\$ 1,000,000	\$ 15,000		
Regulatory Defense & Penalties	\$ 1,000,000	\$ 15,000		
Payment Card Liabilities & Costs	\$ 1,000,000	\$ 15,000		
Media Liability	\$ 1,000,000	\$ 15,000		
Fraudulent Instruction	\$ 150,000	\$ 15,000		
Funds Transfer Fraud	\$ 750,000	\$ 15,000		
Telephone Fraud	\$ 250,000	\$ 15,000		
Compliat Reward	\$ 50,000	\$ 15,000		
Liability				
Each Accident	Statutory	None	BETA	1A0241025
Employer's Liability	\$ 2,000,000			
Liability				
Statutory - NY OR	Statutory	None	Safety National	PRP4284125
Employer's Liability	\$ 2,000,000			

Schedule 4.20

Employee Benefit Plans

(d)(vi)

The 2023 403(b) audit (completed in 2024) contained reportable findings related to internal control deficiencies. These findings are being addressed by HEB.

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31	32	33	34	35	36	37	38	39	40
41	42	43	44	45	46	47	48	49	50
51	52	53	54	55	56	57	58	59	60
61	62	63	64	65	66	67	68	69	70
71	72	73	74	75	76	77	78	79	80
81	82	83	84	85	86	87	88	89	90
91	92	93	94	95	96	97	98	99	100

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1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39	40	41	42	43	44	45	46	47	48	49	50	51	52	53	54	55	56	57	58	59	60	61	62	63	64	65	66	67	68	69	70	71	72	73	74	75	76	77	78	79	80	81	82	83	84	85	86	87	88	89	90	91	92	93	94	95	96	97	98	99	100
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Schedule 4.23

Tax Matters

None

Schedule 4.24

Environmental Matters

None

Schedule 4.25

Tax-Exempt Bond Debt

None

Schedule 4.26

Other Indebtedness

None

Schedule 4.27

Absence of Changes

None

Schedule 5.2

Chapters Authority; Noncontravention

[There are no outstanding powers of attorney executed by or on behalf of Chapters. The execution, delivery and performance of this Agreement and each other Transaction Document by Chapters thereto and the consummation by Chapters of the Transaction, as applicable:]

[(a) are within Chapters' powers and are not in contravention or violation of the terms of the articles of incorporation or bylaws of Chapters and have been, or will be prior to the Closing, approved by all requisite corporate action:]

[(b) except as set forth on Schedule 5.2(b), do not require that Chapters seek or obtain any Approval of, filing or registration with, the issuance of any material Permit by, or give any Notice to, any Governmental Authority:]

[(c) assuming the Approvals and Permits set forth on Schedule 5.2(b) are obtained, to the Knowledge of Chapters, will not conflict in any material respect with, or result in any violation of or default under (with or without notice or lapse or both), or give rise to a right of termination, cancellation, acceleration or augmentation of any obligation or to loss of any material benefit under, (i) any Contract, instrument, indenture, covenant, or understanding to which Chapters is bound or is a party, or (ii) any Order or Law to which Chapters may be subject; and]

[(d) to the Knowledge of Chapters, will neither conflict with, nor result in, a material breach or contravention of any agreement, lease, instrument, indenture, covenant, or understanding to which Chapters is bound or is a party.]

Schedule 5.4

Chapters Financial Information

[(a) Schedule 5.4(a) hereto contains the following financial statements and financial information of Chapters (the "Chapters Historical Financial Information"):

(i) the audited consolidated balance sheets, statements of operation, statements of changes in net assets, and statements of cash flow (including the accompanying consolidating schedules of balance sheet information and statement of operation information) for Chapters as of, and for the twelve-month periods ended December 31, 2023, and December 31, 2022.

(ii) the unaudited consolidated balance sheet (including the accompanying consolidating schedules of balance sheet information) and unaudited consolidated statement of operations (including the accompanying consolidating schedules of statement of operation information) prepared in the Ordinary Course of Business for the fiscal period ending on a date which is not more than sixty (60) calendar days prior to the date of this Agreement.]

[(b) The consolidated financial statements included in the Chapters Historical Financial Information have been prepared in accordance with GAAP, applied on a consistent basis throughout the periods indicated (subject, in the case of the unaudited Chapters Historical Financial Information, to the absence of notes and normal year-end audit adjustments, the effect of which is not material to Chapters), and are based on the information contained in the books and records of Chapters and its Affiliates. Chapters has not materially changed any accounting policy or methodology during the periods presented in the Chapters Historical Financial Information (including accounting policies and methodologies for determining the obsolescence of inventory or in calculating reserves, including reserves for uncollected accounts receivable).]

Schedule 5.5

Chapters Litigation

[Except as set forth on Schedule 5.5: (i) there is no Proceeding or Order pending or, to the Knowledge of Chapters, threatened against or affecting Chapters before any court or Governmental Authority that has or would reasonably be expected to have a material adverse effect on Chapters' ability to perform this Agreement; and (ii) Chapters is not subject to any Order that would materially and adversely affect the consummation of the Transaction.]

Schedule 5.6**Chapters Regulatory Compliance**

[Except as set forth on Schedule 5.6, for the prior three (3) years:]

[(a) Neither Chapters, nor to Chapters' Knowledge, any of its respective officers, directors or employees, has been convicted of, charged with, investigated for, or has engaged in conduct that would reasonably be expected to constitute, a Medicare or other Federal Health Care Program (as defined in 42 U.S.C. § 1320a-7(b)(f)) related offense or convicted of, charged with, investigated for, or engaged in conduct that would constitute a violation of any Law related to fraud, theft, embezzlement, breach of fiduciary duty, kickbacks, bribes, other financial misconduct, obstruction of an investigation or controlled substances. Neither Chapters, nor to Chapters' Knowledge, any officer, director or employee of Chapters has been excluded from participating in any Government Program, subject to sanction pursuant to 42 U.S.C. § 1320a-7a or § 1320a-8 or been convicted of a crime described at 42 U.S.C. § 1320a-7b, nor are any such exclusions, sanctions or charges threatened or pending.]

[(b) Chapters (i) is not a party to a corporate integrity agreement with the OIG; (ii) has no reporting obligations pursuant to any settlement agreement entered into with any Governmental Authority; (iii) has not been formally notified that it is the subject of any Government Program investigation conducted by any federal or state enforcement agency (not including routine or random surveys, audits or reviews which do not or reasonably should not result in findings materially adverse to the relevant Chapters); and (iv) has not been formally notified that it is a defendant in any qui tam/False Claims Act litigation (other than by reason of a sealed complaint of which Chapters may have no Knowledge).]

[(c) Except in compliance with applicable Law, neither Chapters, nor to Chapters' Knowledge, any of their officers, directors or employees is a party to any contract, lease agreement or other arrangement (including any joint venture or consulting agreement) related to Chapters with any physician, physical or occupational therapist, health care facility, hospital, nursing facility, home health agency or other person or entity that is in a position to make or influence referrals to or otherwise generate business for Chapters with respect to its assets, to provide services or lease space or equipment.]

Schedule 5.7**Chapters Tax Matters**

[Except as set forth on Schedule 5.7:]

[(a) To the Knowledge of Chapters, Chapters (i) is, and has been since the date of its incorporation, an organization exempt from federal income tax under § 501(a) of the Code as an organization that is described in § 501(c)(3), (ii) is not, and has not been since the date of its incorporation, a private foundation within the meaning of § 509(a) of the Code because it is an organization described in §§ 509(a)(1), 509(a)(2) or 509(a)(3), (iii) is in possession of a determination letter from the Internal Revenue Service to such effect, which determination letter has not been revoked or otherwise modified, (iv) is in compliance in all material respects with all applicable Laws pertaining to the operation of an organization described in § 501(c)(3) of the Code, and (v) has not entered into any transaction that would reasonably be expected to constitute an "excess benefit transaction" within the meaning of § 4958 of the Code.]

[(b) Chapters has filed all Tax Returns required to be filed by it. All Taxes due and owing by Chapters (whether or not shown on any Tax Return), have either been paid or are being contested in good faith by appropriate Proceedings for which adequate reserves have been established. Except with respect to waivers or extensions that are no longer in force, Chapters has not waived any statute of limitations in respect of Taxes or agreed to any extension of time with respect to a Tax assessment or deficiency other than ordinary course extensions of time within which to file any Tax Return.]

[(c) Chapters has withheld and paid all material Taxes required to have been withheld and paid by it in connection with amounts paid or owing to any employee, independent contractor, creditor or other third party, and all Internal Revenue Service Forms W-2 and 1099 required with respect thereto have been properly completed and timely filed (taking into account all extensions).]

[(d) Chapters has not received any written notice from any Governmental Authority of deficiency or assessment, or proposed adjustment or assessment, in respect of Taxes of Chapters. To the Knowledge of Chapters, there are no pending or threatened Proceedings relating to any liability in respect of Taxes of Chapters).]

Schedule 7.1(b)

Agreements That Create Employment Obligations

Hospice East Bay's severance policy applies to all employees based on years of services (see below).

HUMAN RESOURCE POLICY MANUAL	Number:
Policy Section: Employment and Performance	Effective Date: 10/10/19
Subject: SEVERANCE	Revision Date:
	Page Number: 1 of 1
PURPOSE:	
The purpose of this policy is to provide guidelines outlining Hospice of the East Bay's severance policy.	
Eligibility	
This policy applies to all exempt and nonexempt, full-time and part-time employees. Part-time employees will receive severance pay on a pro-rated basis in accordance with their scheduled hours.	
Triggering Events	
In the event of an involuntary termination due to a reduction in force/downsizing, change in company direction, or job elimination, Hospice of the East Bay provides a severance benefit for the affected employees. This does not apply to terminations for cause/performance/misconduct, refusal to be reassigned or refusal to be relocated.	
Payment Amount	
The rate of severance is based on length of service with Hospice of the East Bay (or as adjusted through acquisition).	
Length of Service	Number of Weeks
Less than one year - less than 2	2
Two years - less than three	4
Three years - less than four	6
Four years - less than five	8

Five years - less than six	10
Six years - less than seven	12
Seven years or more	13
The maximum allowed severance is thirteen weeks. Severance is calculated on base pay only.	

Physician (independent contractor) and other employment agreements:

Physician Name	Date of Agreement	Last Addendum Date
Smita Chandra, MD	03.01.2023	03.01.2023
Mina Chang, MD, CMO	06.02.2023	
Robert Cole, MD	03.01.2023	
Russ Granich, MD	02.12.2023	
Michael Jensen-Akula, MD	01.01.2015	03.15.2024
Sonja Kassuba, MD	12.01.2021	04.01.2024
Tiffany King, MD	02.16.2023	
Stephanie Marquet, MD	02.03.2020	06.14.2021
Guy Micco, MD	03.01.23	
Walter Peters, MD	01.01.2015	04.01.2024
Sally Sample, MD	09.18.23	04.01.2024
Ann Stevens, MD	03.01.2023	
Clara Triane, MD	04.01.2022	03.15.2024
Natalia Zielkiewicz, MC	02.13.2023	04.01.2024
Bill Musick, Interim President & CEO	01.13.2023	05.01.2024

Schedule 7.3

Hospice East Bay Closing Balance Sheet

[This will be provided at closing as this requires the last balance sheet statement before Closing.]

Schedule 8.4

Chapters Pre-Closing Confirmations from Government Authorities

[Chapters shall have obtained documentation or other evidence reasonably satisfactory to Chapters that the Parties have received all those Approvals and Permits set forth on Schedule 8.4.]

Schedule 9.4

Hospice East Bay Pre-Closing Confirmations from Government Authorities

- Change of ownership filings with the California Department of Public Health and the Centers for Medicare and Medicaid Services.
- Waiver or approval by California Attorney General
- Material change transaction filing with the California Office of Health Care Affordability
- Notice to Community Health Accreditation Partner

DISCLOSURE SCHEDULES OF CHAPTERS HEALTH SYSTEM, INC.

TO AFFILIATION AGREEMENT

by and between

CHAPTERS HEALTH SYSTEM, INC.

and

EAST BAY INTEGRATED CARE, INC.,

d/b/a HOSPICE EAST BAY

as of October 2, 2024

THESE DISCLOSURE SCHEDULES (these “**Disclosure Schedules**”) have been prepared in connection with the execution and delivery of the Affiliation Agreement, dated as of October 2, 2024 (the “**Agreement**”), by and between Chapters Health System, Inc., a Florida not for profit corporation (“**Chapters**”) and East Bay Integrated Care, Inc. d/b/a Hospice East Bay, a California nonprofit public benefit corporation (“**Hospice East Bay**”). Chapters and Hospice East Bay are sometimes referred to individually in these Disclosure Schedules as a “**Party**” and collectively as the “**Parties**.” Capitalized terms used but not otherwise defined in these Disclosure Schedules have the respective meanings assigned to them in the Agreement.

These Disclosure Schedules are arranged according to the numbered sections contained in the Agreement, and the disclosure in any section of these Disclosure Schedules shall qualify (a) the corresponding section of the Agreement and (b) all other sections of the Agreement to which such disclosure may apply, so long as application to such section is reasonably apparent from such disclosure.

Nothing in these Disclosure Schedules constitutes an admission of any liability or obligation of either Party to any third party, nor an admission of any liability or obligation to any third party against the interests of either Party. In disclosing this information, the Parties do not waive any attorney-client privilege associated with any such information or any protection afforded by the “work product doctrine” with respect to any of the matters disclosed or discussed in these Disclosure Schedules.

Headings have been inserted on Sections of these Disclosure Schedules for the convenience of reference only and shall not affect the construction or interpretation of any of the provisions of the Agreement or these Disclosure Schedules. Any attachments to these Disclosure Schedules shall be deemed incorporated by reference into these Disclosure Schedules in their entirety.

SCHEDULE 5.2(b)

CHAPTERS APPROVALS AND PERMITS

- Change of ownership filings with the California Department of Public Health and the Centers for Medicare and Medicaid Services.
- Waiver or approval by California Attorney General
- Material change transaction filing with the California Office of Health Care Affordability

SCHEDULE 5.4(a)

CHAPTERS HISTORICAL FINANCIAL INFORMATION

1. Chapters Health System, Inc. and Affiliates Consolidated Financial Statements dated December 31, 2023 and 2022.
2. Chapters Health System, Inc. and Affiliates Unaudited Balance Sheet dated no more than 60 days prior to October 2, 2024.

(Copies of the above are attached to this Schedule 5.4(a))

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

CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2023 and 2022

11 Cal. Code Reg. Section 999.5(d)(11)(E)

Copies of each Proposal received by the applicant from any potential transferee suggesting the terms of a potential transfer of applicant's health facilities or facilities that provide similar health care, and any analysis of each such Proposal

N/A

11 Cal. Code Reg. Section 999.5(d)(11)(F)

The applicant's prior two annual audited financial statements, the applicant's most current unaudited financial statement, business projection data and current capital asset valuation data.

Attached to this Section are copies of the following financial statements for Hospice East Bay:

- A copy of the Unaudited financial statements dated September 2024
- A copy of the Audited financial statements for 2023
- A copy of the Audited financial statements for 2022

Hospice East Bay Finance Committee

September 2024



Hospice East Bay
Hospice of the East Bay, Inc. 50101

2024



Palliative Care
of the East Bay

Financial Overview

- Consolidated Clinical Operations revenue continues to be below budget by \$311k (Sep) and \$739k YTD due to low admissions and lower than budgeted census.
- Positive trends:
 - ADC in October MTD is showing improvement (193 vs 183 end of September)
 - 2 admissions nurses were hired in September – we now have 4 additional admission capacity per day, 5 days out of the week.
 - Retail Shoppes had a favorable month, with Sales exceeding budget by \$20k and Labor below budget by \$10k. Retail added \$73k to our Consolidated Operating Income for the month.
 - Bruns continue to get more visibility in the community. If it was not for the higher than usual write off in Sep (see note on page 3), Bruns would have outperformed in revenue for the month.
 - We are seeing Medicare payments for the ADRs starting to come through. So far in October, we have received 50K for 2020 & 2021 claims.



Hospice East Bay
Caring. Calm. With a Warm Hand.



**Palliative Care
of the East Bay**

Clinical Operations Summary

	September				YTD September			
	Actual vs Budget				YTD Actual vs YTD Budget			
	Actual	Budget	\$ Var	% Var	YTD Actual	YTD Budget	\$ Var	% Var
Hospice								
Patient Days	5,067	5,575	(1,298)	-19.9%	56,393	30,137	24,632	78%
ADC	1,739	2,025	(416)	-19.9%	2,056	2,225	(119)	-4.9%
Revenue	\$ 1,700	\$ 2,061	\$ (378)	-14.9%	\$ 17,346	\$ 18,277	\$ (931)	-5.1%
Expense	\$ 1,216	\$ 1,216	\$ 100	7.6%	\$ 11,786	\$ 11,231	\$ 555	4.9%
Operating Income(Loss)	\$ 486	\$ 846	\$ (197)	-24.0%	\$ 5,559	\$ 7,046	\$ (1,487)	-21.1%
Bruno House								
GP PR Days	15	17	(2)	-12.0%	474	472	2	0.4%
Routine PR Days	34	23	32	140.3%	176	158	17	10.8%
Cont Care & Respite PR Days	8	5	0	0.0%	131	72	59	82.5%
Total PR Days	57	45	50	111.1%	781	702	79	11.3%
ADC	19	20	0	0.0%	212	207	5	2.4%
Revenue	\$ 109	\$ 126	\$ (17)	-12.5%	\$ 1,294	\$ 1,097	\$ 196	17.8%
Expense	\$ 224	\$ 237	\$ (13)	-5.3%	\$ 1,932	\$ 1,798	\$ 134	7.5%
Operating Income(Loss)	\$ (115)	\$ (111)	\$ (4)	-3.6%	\$ (638)	\$ (699)	\$ (61)	-8.7%
Palliative Care								
Palliative Patients	57	72	(15)	-19.9%	536	136	400	294.9%
MM Visits	17	44	(27)	-61.4%	181	328	(147)	-45.0%
NP Visits	37	35	2	5.7%	493	211	282	133.7%
Revenue	\$ 22	\$ 22	\$ (1)	-4.5%	\$ 175	\$ 112	\$ 63	55.3%
Expense	\$ 30	\$ 22	\$ 8	36.4%	\$ 244	\$ 167	\$ 77	45.5%
Operating Income(Loss)	\$ (8)	\$ 0	\$ (8)	-100.0%	\$ (69)	\$ (55)	\$ (14)	-25.5%
MLNIP								
Revenue	\$ 4	\$ 2	\$ 2	100.0%	\$ 10	\$ 16	\$ (6)	-37.5%
Expense	\$ 11	\$ 12	\$ (1)	-8.3%	\$ 1,092	\$ 1,136	\$ (44)	-3.9%
Operating Income(Loss)	\$ (7)	\$ (10)	\$ 3	30.0%	\$ (1,082)	\$ (1,120)	\$ 38	-3.4%
G&A								
Revenue	\$ -	\$ -	\$ -	-	\$ -	\$ -	\$ -	-
Expense	\$ 729	\$ 650	\$ 79	12.1%	\$ 6,924	\$ 7,240	\$ (316)	-4.4%
Operating Income(Loss)	\$ (729)	\$ (650)	\$ 79	12.1%	\$ (6,924)	\$ (7,240)	\$ 316	-4.4%

Direct Labor

All RN's and NP's received a market adjustment increase in August impacting Direct Labor costs. This was an unbudgeted increase due to market demand and will continue to impact the variance for 2024.

Hospice

Revenue

- \$298k (15%) below budget driven by low admissions and census. Recent trending in October is showing improvement.

Bruno House

Revenue

- \$108k revenue adjustment (write off) booked in Sep representing Charity Care for a long term (90 days+) patient. This was primarily driven by a unique situation - patient was at the Bruno House since mid-July and recently passed in September.

Direct Labor

- Higher census caused Direct Labor (mainly Nurses) to be unfavorable to budget by \$24k. This was driven by required staffing ratios for GP Hospice facilities.

Palliative Care

Direct Labor

- Direct Labor unfavorable to budget by \$11k, driven by unbudgeted hire of Palliative Care Case Manager and higher than planned NP labor (more visits).



Hospice East Bay
Helping Patients Live Longer

2024



Palliative Care
of the East Bay

Non-Clinical and Total HEB Summary

\$35 in Thousands (000's)

	September				YTD September			
	Actual vs Budget				YTD Actual vs YTD Budget			
	Actual	Budget	\$ Var	% Var	YTD Actual	YTD Budget	\$ Var	% Var
Clinical Operations (prev slide)								
Revenue	\$ 1,834	\$ 2,145	\$ (311)	-14.5%	\$ 18,343	\$ 19,572	\$ (1,229)	-6.3%
Expense	\$ 2,321	\$ 2,525	\$ 204	8.1%	\$ 21,309	\$ 21,931	\$ (622)	-2.8%
Operating Income/(Loss)	\$ (487)	\$ (379)	\$ (108)	-28.4%	\$ (3,165)	\$ (2,069)	\$ (1,107)	-53.8%
Fund Development								
Revenue	\$ 75	\$ 151	\$ (74)	-49.1%	\$ 682	\$ 873	\$ (191)	-21.9%
Expense	\$ 55	\$ 45	\$ (10)	-23.0%	\$ 457	\$ 501	\$ (44)	-8.8%
Operating Income/(Loss)	\$ 21	\$ 105	\$ (84)	-80.0%	\$ 215	\$ 493	\$ (278)	-56.4%
Retail Thrift Shoppes								
Revenue	\$ 326	\$ 308	\$ 18	6.4%	\$ 2,433	\$ 2,491	\$ (58)	-2.3%
Expense	\$ 250	\$ 255	\$ 5	2.1%	\$ 2,317	\$ 2,199	\$ (118)	-5.4%
Operating Income/(Loss)	\$ 73	\$ 53	\$ 20	38.4%	\$ 116	\$ 322	\$ (206)	-64.3%
HEB Total								
Revenue	\$ 2,238	\$ 2,603	\$ (365)	-14.0%	\$ 21,068	\$ 22,937	\$ (1,869)	-8.2%
Expense	\$ 2,651	\$ 2,825	\$ 174	6.5%	\$ 24,793	\$ 24,130	\$ (663)	-2.7%
Operating Income/(Loss)	\$ (413)	\$ (222)	\$ (191)	-47.3%	\$ (2,725)	\$ (1,244)	\$ (1,531)	-123.1%
Philanthropic	\$ (27)	\$ (32)	\$ 5	16.1%	\$ (263)	\$ (273)	\$ 10	3.6%
Investment/Other	\$ 361	\$ 147	\$ 214	145.6%	\$ 3,401	\$ 1,329	\$ 2,072	154.4%
NET INCOME/(LOSS)	\$ (60)	\$ (108)	\$ 48	44.4%	\$ 370	\$ (178)	\$ 547	308.3%

Fund Development

Revenue

- September Revenue was unfavorable to budget by \$74k. We believe this is a timing issue and anticipate revenue to pick up as we approach the end of the year. Planned giving YTD is \$32k vs Budget of \$280k.

Retail Thrift Shoppes

- All Shoppes showed favorable sales compared to budget in September. This was driven by the September events (Labor Day sales and Vintage Days event).
- September Labor expense were also favorable to budget in all Shoppes. This was driven by efforts to effectively manage staffing in each of the Shoppes and control Labor expenses.



Hospice East Bay
 A Division of Kaiser Permanente

2019



Palliative Care
 of the East Bay

Cash Flow

\$\$\$ in Thousands (000's)	Sep-24
Net income	\$ (60)
Depreciation	\$ 51
A/R	\$ 143
Prepaid Expenses	\$ 9
Other Current Asset/Security deposit	\$ 30
Accounts Payable	\$ 61
Accrued payroll & bonuses	\$ 143
Accrued PTO	\$ 17
Other Accrued Expenses	\$ (66)
Cash Flow from Operations	\$ 327
Investment	
Capital Expenditure	\$ (39)
Donated Securities	\$
Cash Flow from investing	\$ (39)
Net Source/use) of Cash	\$ 12
Cash, Beginning of Period	\$ 2,077
Cash, End of Period	\$ 2,088

Assets

- **Cash at End of Period**
September continues to be a strong month for collections and despite the reduction in revenue, we are seeing good cash inflow.
- **Palliative DSO** decreased by 18.5 days as compared to prior month.
- **Hospice DSO** without ADR's also decreased showing a reduction of 3.1 days compared to prior month. The overall DSO showed a similar reduction of 3.3 days.
- **Investments** - Increased by \$381k over prior month due to continued favorable market conditions.



Hospice East Bay
Hospice of Alameda County

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Palliative Care
of the East Bay

Appendix



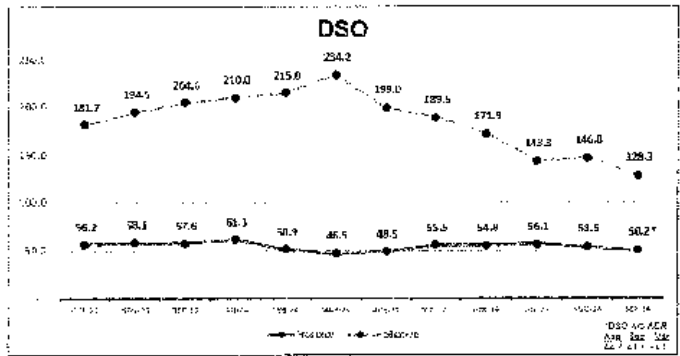
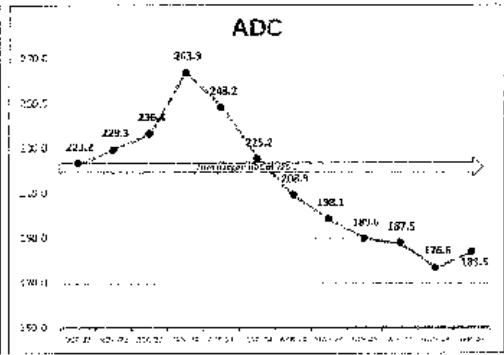
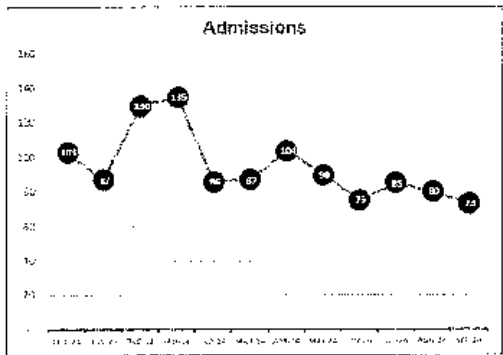
Hospice East Bay

When It's Time to Say Goodbye



Palliative Care

of the East Bay



Balance Sheet

SFSP Programs (2019)	Current Month		Prior Period		Prior Year	
	Sep-24	Aug-24	Aug-23	Sep-23	Sep-23	Sep-23
Assets						
Current Assets						
Cash and Cash Equivalents	\$ 2,088	\$ 2,177	\$ 2,333	\$ 2,333	\$ 2,333	\$ 2,333
Total Available	\$ 2,217	\$ 2,306	\$ 2,462	\$ 2,462	\$ 2,462	\$ 2,462
Prepaid Expenses	\$ 1	\$ 1	\$ 1	\$ 1	\$ 1	\$ 1
Other Current Assets	\$ 288	\$ 218	\$ 218	\$ 218	\$ 218	\$ 218
Total Current Assets	\$ 2,506	\$ 2,585	\$ 2,681	\$ 2,681	\$ 2,681	\$ 2,681
Fixed Equipments						
Property, Plant & Equipment	\$ 11,860	\$ 12,078	\$ 12,241	\$ 12,241	\$ 12,241	\$ 12,241
Accumulated Depreciation on Property, Plant & Equipment	\$ (5,072)	\$ (5,048)	\$ (5,121)	\$ (5,121)	\$ (5,121)	\$ (5,121)
Total Fixed Assets	\$ 6,788	\$ 7,030	\$ 7,120	\$ 7,120	\$ 7,120	\$ 7,120
Total Assets	\$ 9,294	\$ 9,615	\$ 9,801	\$ 9,801	\$ 9,801	\$ 9,801
Liabilities & Equities						
Current Liabilities						
Accounts Payable	\$ 1,951	\$ 1,969	\$ 1,976	\$ 1,976	\$ 1,976	\$ 1,976
Accrued Payroll and Overtime	\$ 1,236	\$ 1,069	\$ 962	\$ 962	\$ 962	\$ 962
Accrued PTO	\$ 354	\$ 347	\$ 307	\$ 307	\$ 307	\$ 307
Other Accrued Liabilities	\$ 218	\$ 279	\$ 181	\$ 181	\$ 181	\$ 181
Total Current Liabilities	\$ 3,759	\$ 3,665	\$ 3,426	\$ 3,426	\$ 3,426	\$ 3,426
Long Term Liabilities						
Other LT Liabilities	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
LT Capital Lease Liability	\$ 2,127	\$ 2,127	\$ 2,127	\$ 2,127	\$ 2,127	\$ 2,127
Total Liabilities	\$ 5,886	\$ 5,792	\$ 5,553	\$ 5,553	\$ 5,553	\$ 5,553
Fund Balances						
Fund Source	\$ 33,437	\$ 33,437	\$ 33,437	\$ 33,437	\$ 33,437	\$ 33,437
Current Year Changes	\$ 371	\$ 430	\$ 430	\$ 430	\$ 430	\$ 430
Transfers, Restricted	\$ 1,187	\$ 1,187	\$ 1,187	\$ 1,187	\$ 1,187	\$ 1,187
Permanent Restricted	\$ 500	\$ 500	\$ 500	\$ 500	\$ 500	\$ 500
Total Fund Balance	\$ 35,495	\$ 35,574	\$ 35,574	\$ 35,574	\$ 35,574	\$ 35,574
Total Liabilities & Fund Balance	\$ 41,381	\$ 41,366	\$ 41,127	\$ 41,127	\$ 41,127	\$ 41,127



Hospice East Bay
Providing Quality Care

2024



Palliative Care
of the East Bay

Consolidated Income Statement

\$\$\$ in Thousands (000's)	September									YTD September		Revised Approved Budget	
	Actual vs Budget			Actual vs Prior Month			YTD Actual vs YTD Budget			YTD	Annual		
	Actual	Budget	Var	Prior Month	Var	YTD Actual	YTD Budget	Var					
Revenue	\$ 2,238	\$ 2,603	\$ (365) ☹	\$ 2,182	\$ 56 ☹	\$ 21,988	\$ 22,937	\$ (948) ☹	\$ 22,937	\$ 30,908			
Direct Labor	\$ 1,170	\$ 1,194	\$ 23 ☹	\$ 1,195	\$ 25 ☹	\$ 10,705	\$ 10,937	\$ (232) ☹	\$ 10,937	\$ 13,617			
Contract Parent Related Expenses	\$ 167	\$ 199	\$ (32) ☹	\$ 187	\$ 20 ☹	\$ 1,758	\$ 1,818	\$ (60) ☹	\$ 1,818	\$ 2,426			
Total Direct Expenses	\$ 1,338	\$ 1,393	\$ 55 ☹	\$ 1,382	\$ 45 ☹	\$ 12,463	\$ 11,854	\$ (609) ☹	\$ 11,854	\$ 16,043			
Indirect Labor	\$ 850	\$ 977	\$ (128) ☹	\$ 994	\$ (145) ☹	\$ 8,390	\$ 8,190	\$ (200) ☹	\$ 8,190	\$ 11,098			
Administrative Expenses	\$ 261	\$ 283	\$ (22) ☹	\$ 239	\$ (22) ☹	\$ 2,277	\$ 2,585	\$ (308) ☹	\$ 2,585	\$ 3,453			
Facility Related Expenses	\$ 183	\$ 172	\$ (11) ☹	\$ 184	\$ 1 ☹	\$ 1,633	\$ 1,551	\$ (82) ☹	\$ 1,551	\$ 2,073			
Total Indirect Expenses	\$ 1,294	\$ 1,432	\$ (139) ☹	\$ 1,418	\$ (124) ☹	\$ 12,300	\$ 12,326	\$ (26) ☹	\$ 12,326	\$ 16,626			
Total Operating Expenses	\$ 2,631	\$ 2,825	\$ (194) ☹	\$ 2,800	\$ (169) ☹	\$ 24,763	\$ 24,180	\$ (582) ☹	\$ 24,180	\$ 32,668			
Operating Income/(Loss)	\$ (393)	\$ (222)	\$ (171) ☹	\$ (618)	\$ 225 ☹	\$ (2,775)	\$ (1,244)	\$ (1,531) ☹	\$ (1,244)	\$ (1,760)			



Hospice East Bay
 Making Your World a Better Place



Palliative Care
 Making Your World a Better Place



Palliative Care
 of the East Bay

Average Daily Census

2023	Hospice Trend				Palliative Trend		
	Home Hospice	Bruna House	Emeryville	Total	Patients	NP Visits	MD Visits
January	247.0	5.0	41.0	293.0	68	46	32
February	217.7	5.0	39.7	262.4	58	28	32
March	216.2	3.8	36.5	256.5	63	27	30
April	216.1	3.8	37.8	257.7	57	14	29
May	214.5	2.7	38.8	255.9	54	17	24
June	212.3	2.3	38.1	252.7	53	7	28
July	207.8	2.2	39.5	249.5	52	14	29
August	203.7	1.4	38.3	243.4	59	24	21
September	203.4	2.3	34.9	238.6	63	25	3
October	198.7	3.0	35.3	237.0	61	33	15
November	194.5	1.5	38.3	234.3	52	27	23
December	202.3	1.9	41.3	245.5	65	41	18
YTD AVERAGE	212.2	2.4	38.3	247.2	64	28	30

2024	Hospice Trend				Palliative Trend		
	Home Hospice	Bruna House	Emeryville	Total	Patients	NP Visits	MD Visits
January	197.7	3.2	32.2	233.1	66	26	18
February	187.2	3.0	37.5	227.7	67	45	18
March	188.1	5.3	35.3	228.7	71	26	18
April	177.4	2.3	38.8	218.5	55	26	16
May	168.2	2.1	35.1	205.4	47	22	18
June	156.6	4.1	35.1	195.8	46	25	20
July	148.8	3.7	38.2	190.7	47	24	19
August	148.5	4.0	37.8	190.3	48	20	17
September	154.4	4.0	34.5	192.9	57	47	7
October							
November							
December							
YTD AVERAGE	175.7	3.4	36.0	209.0	71	31	20

	Hospice				Palliative (YTD to Avg)		
	Home Hospice	Bruna House	Emeryville	Total	Patients	NP Visits	MD Visits
September Actual	184.4	1.7	34.3	186.5	47	27	17
2023 YTD Budget	212.0	2.4	38.3	252.7	64	28	30
September 2024 Budget	202.4	3.1	34.5	240.0	65	28	27
September YTD Actual	177.7	3.2	32.2	213.1	61	27	20
September YTD Budget	202.0	3.0	35.0	240.0	65	30	25
September 2023 YTD Avg	212.0	2.3	35.3	249.6	64	28	29
2024 Budget (Avg)	230.0	3.0	30.0	290.0	62	42	25

Note: 2024 Home Hospice was adjusted in total. There is not a separate budget for Emeryville.





Financial Statements
December 31, 2023 and 2022

East Bay Integrated Care, Inc.
dba Hospice of the East Bay

East Bay Integrated Care, Inc.

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December 31, 2023 and 2022

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Independent Auditor's Report

To the Board of Directors
East Bay Integrated Care, Inc.
dba Hospice of the East Bay
Pleasant Hill, California

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of East Bay Integrated Care, Inc. dba Hospice of the East Bay (Organization), which comprise the balance sheets as of December 31, 2023 and 2022, and the related statements of operations, changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Organization as of December 31, 2023 and 2022, and the results of its operations, changes in net assets, and 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 audit 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 the Organization 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 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 financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 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 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 financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

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

Eide Bailly LLP

Fargo, North Dakota
May 21, 2024

East Bay Integrated Care, Inc.

Balance Sheets

December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 2,980,962	\$ 2,814,765
Patient accounts receivable, net	4,559,962	4,210,407
Interest and dividends receivable	114,784	119,451
Prepaid expenses and other	<u>607,697</u>	<u>470,627</u>
Total current assets	<u>8,263,405</u>	<u>7,615,250</u>
Noncurrent Assets		
Beneficial interest in charitable trust	208,013	169,460
Investments	27,605,464	25,854,128
Property and equipment, net	7,124,993	7,364,542
Right of use assets - operating	2,097,652	2,172,761
Deposits	<u>308,124</u>	<u>221,832</u>
Total noncurrent assets	<u>37,344,246</u>	<u>35,782,723</u>
Total assets	<u>\$ 45,607,651</u>	<u>\$ 43,397,973</u>

East Bay Integrated Care, Inc.

Balance Sheets

December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Liabilities and Net Assets		
Current Liabilities		
Line of credit	\$ -	\$ 338,508
Accounts payable	727,729	720,801
Accrued expenses	1,636,514	1,807,546
Funds held for others	4,851	5,078
Operating lease liability	<u>632,804</u>	<u>703,555</u>
Total current liabilities	3,001,898	3,575,488
Noncurrent Liabilities		
Operating lease liability, net of current portion	<u>1,493,486</u>	<u>1,493,648</u>
Total liabilities	<u>4,495,384</u>	<u>5,069,136</u>
Net Assets		
Without donor restrictions	39,459,039	36,737,660
With donor restrictions	<u>1,653,228</u>	<u>1,591,177</u>
Total net assets	<u>41,112,267</u>	<u>38,328,837</u>
Total liabilities and net assets	<u>\$ 45,607,651</u>	<u>\$ 43,397,973</u>

East Bay Integrated Care, Inc.
Statements of Operations
Years Ended December 31, 2023 and 2022

	2023	2022
Revenue, Gains, and Other Support Without Donor Restrictions		
Patient service revenue	\$ 27,745,652	\$ 28,777,320
Retail revenue	3,188,288	3,242,546
Special events, net	156,452	176,983
Other income	152	42
Net assets released from restriction for operations	311,049	246,040
Total revenues, gains, and other support	31,401,593	32,442,931
Expenses		
Salaries and benefits	22,817,805	23,781,514
Contract labor and services	2,442,545	2,473,099
Occupancy	2,170,873	2,204,635
Medical supplies and equipment	1,211,893	1,404,104
Other expenses	887,489	845,827
Pharmacy, therapies, hospital and laboratory	794,631	824,570
Professional fees	959,269	556,401
Depreciation	604,512	553,140
Inpatient facility	251,535	242,834
Patient related transportation	228,052	268,350
General liability insurance	291,725	233,367
Printing and office supplies	159,969	183,106
Education	58,568	123,070
Total expenses	32,878,866	33,694,017
Operating Loss	(1,477,273)	(1,251,086)
Other Income (Expense)		
Rental income	17,971	63,029
Investment income (loss)	3,346,371	(2,316,909)
Unrestricted contributions and grants	834,310	1,050,147
Total other income, net	4,198,652	(1,203,733)
Revenues in Excess of (Less Than) Expenses and Change in Net Assets Without Donor Restrictions	\$ 2,721,379	\$ (2,454,819)

East Bay Integrated Care, Inc.
 Statements of Changes in Net Assets
 Years Ended December 31, 2023 and 2022

	2023	2022
Net Assets Without Donor Restrictions		
Revenues in excess of (less than) expenses and change in net assets without donor restrictions	\$ 2,721,379	\$ (2,454,819)
Net Assets With Donor Restrictions		
Contributions restricted by donors	291,405	188,023
Change in beneficial interest in charitable trust	38,553	(41,667)
Investment income (loss)	43,142	(36,020)
Net assets released from restrictions	(311,049)	(246,040)
Change in net assets with donor restrictions	62,051	(135,704)
Change in Net Assets	2,783,430	(2,590,523)
Net Assets, Beginning of Year	38,328,837	40,919,360
Net Assets, End of Year	\$ 41,112,267	\$ 38,328,837

East Bay Integrated Care, Inc.
Statements of Functional Expenses
Year Ended December 31, 2023

	Program Services		Supporting Services			Total
	Hospice Care	Bruns	General and Administrative	Fundraising	Retail	
Salaries and Benefits	\$ 14,380,883	\$ 1,733,889	\$ 4,588,281	\$ 488,561	\$ 1,626,191	\$ 22,817,805
Contract Labor and Services	1,924,764	161,870	355,911	-	-	2,442,545
Occupancy	202,140	-	807,811	-	1,160,922	2,170,873
Medical Supplies and Equipment	1,211,893	-	-	-	-	1,211,893
Other Expenses	250,869	140	454,764	63,922	117,794	887,489
Pharmacy Therapies, Hospital and laboratory	794,631	-	-	-	-	794,631
Professional Fees	84,307	-	874,962	-	-	959,269
Depreciation	123,294	50,899	384,211	-	46,108	604,512
Inpatient Facility	1,964	249,571	-	-	-	251,535
Patient Related Transportation	225,318	2,734	-	-	-	228,052
General Liability Insurance	686	-	291,039	-	-	291,725
Printing and Office Supplies	50,674	-	72,445	18,760	18,090	159,969
Education	32,323	-	26,079	166	-	58,568
Total expenses	\$ 19,283,746	\$ 2,199,103	\$ 7,855,503	\$ 571,409	\$ 2,969,105	\$ 32,878,866

See Notes to Financial Statements

East Bay Integrated Care, Inc.
Statements of Functional Expenses
Year Ended December 31, 2022

	Program Services		Supporting Services			Total
	Hospice Care	Bruns	General and Administrative	Fundraising	Retail	
Salaries and Benefits	\$ 15,794,250	\$ 1,890,793	\$ 4,015,063	\$ 433,520	\$ 1,647,888	\$ 23,781,514
Contract Labor and Services	2,126,547	68,710	277,842	-	-	2,473,099
Occupancy	178,662	-	900,565	-	1,125,408	2,204,635
Medical Supplies and Equipment	1,404,104	-	-	-	-	1,404,104
Other Expenses	216,164	140	462,057	62,449	105,017	845,827
Pharmacy Therapies, Hospital and laboratory	824,570	-	-	-	-	824,570
Professional Fees	108,446	-	447,955	-	-	556,401
Depreciation	62,840	50,755	401,486	-	38,059	553,140
Inpatient Facility	3,207	239,627	-	-	-	242,834
Patient Related Transportation	260,298	8,052	-	-	-	268,350
General Liability Insurance	686	-	231,487	-	1,194	233,367
Printing and Office Supplies	78,195	-	61,609	26,073	17,229	183,106
Education	47,228	-	75,347	-	495	123,070
Total expenses	\$ 21,105,197	\$ 2,258,077	\$ 6,873,411	\$ 522,042	\$ 2,935,290	\$ 33,694,017

See Notes to Financial Statements

East Bay Integrated Care, Inc.
Statements of Cash Flows
Years Ended December 31, 2023 and 2022

	2023	2022
Operating Activities		
Change in net assets	\$ 2,783,430	\$ (2,590,523)
Adjustments to reconcile change in net assets to net cash from operating activities		
Net realized and unrealized (gain) loss on investments	(2,504,662)	3,119,161
Depreciation	604,512	553,140
Gain on disposal of capital asset	(823)	-
Change in beneficial interest of charitable trust	(38,553)	41,667
Changes in assets and liabilities		
Patient accounts receivable, net	(349,555)	(709,362)
Interest and dividends receivable	4,667	(19,715)
Contributions receivable	-	100,000
Prepaid expenses and other	(137,070)	25,469
Deposits	(86,292)	25,533
Accounts payable	6,928	50,808
Accrued expenses	(171,032)	(120,870)
Funds held for others	(227)	(976)
Operating lease assets and liabilities	4,196	24,442
Unearned revenue	-	(21,874)
Net Cash from Operating Activities	115,519	476,900
Investing Activities		
Purchases of investments	(11,051,880)	(8,982,839)
Donated securities	(54,245)	(75,134)
Proceeds from sales of investments	11,859,451	6,387,799
Purchases of property and equipment	(390,865)	(767,589)
Proceeds from sales of property and equipment	26,725	-
Net Cash from (used for) Investing Activities	389,186	(3,437,763)
Financing Activity		
Increase (decrease) in line of credit	(338,508)	338,508
Net Change in Cash and Cash Equivalents	166,197	(2,622,355)
Cash and Cash Equivalents, Beginning of Year	2,814,765	5,437,120
Cash and Cash Equivalents, End of Year	\$ 2,980,962	\$ 2,814,765
Supplemental Disclosure of Non-cash Investing and Financing Activity		
Lease liabilities arising from obtaining right of use assets	\$ 83,246	\$ -

Note 1 - Nature of Operations

Organization

East Bay Integrated Care, Inc. (dba Hospice of the East Bay) (Organization) is a California nonprofit organization which provides hospice care to terminally ill patients and their families throughout Contra Costa, Alameda and Solano Counties. The Organization also operates a state licensed hospice inpatient facility in the East Bay, The Bruns House. Patient care services are usually covered by Medicare, Medi-Cal, and private insurance payors; however, not every patient accepted for care is eligible for insurance coverage, and not every service provided is included under such coverage. Medically eligible patients are accepted regardless of type of illness, age, color, sex, religious affiliation, or national origin. The Organization has specialty programs such as a community-based Palliative Care Program, the Give Me a Break respite program, the Bridge Program, the Tuck-In Program, We Honor Veterans Program, and the Music and Memory Program which has board-certified music therapists.

The Organization provides funding for charity care and other programs. The Organization receives support from grants, community donations and fundraising activities and annual special events. In addition, the Organization operates six thrift stores in Contra Costa County, which sell donated used clothing and household goods. The related sales and operating expenses are reported as Retail Operations in the statements of operations. Retail sales also include estate and vehicle sale proceeds.

Note 2 - Summary of Significant Accounting Policies

Basis of Accounting

The basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting refers to the timing of measurement made, regardless of the measurement focus applied. The accompanying financial statements of the Organization have been prepared on the accrual basis of accounting. Revenues are recognized as performance obligations are satisfied and expenses are recognized when incurred.

Basis of Presentation

The accompanying financial statements have been prepared in accordance with Financial Accounting Standards Board (FASB) ASC 958 and ASC 954. Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – The Organization reports contributions that are not subject to donor-imposed restrictions as net assets without donor restrictions. Net assets without donor restrictions may be designated for specific purposes by action of the Board of Directors.

Net Assets with Donor Restrictions – The Organization reports contributions as net assets with donor restrictions if they are received with donor-imposed restrictions that can be met either by passage of time, or other events specified by the donor. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Income Taxes

The Organization is organized as a California nonprofit corporation and has been recognized by the Internal Revenue Service (IRS) as exempt from Federal and State income tax under Internal Revenue Code Section 501(c)(3) and Section 23701(d) of the Revenue and Taxation Code. The Organization is annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. In addition, the Organization is subject to income tax on net income that is derived from business activities that are unrelated to its exempt purpose. The Organization has determined it is not subject to unrelated business income tax and has not filed an Exempt Organization Business Income Tax Return (Form 990-T) with the IRS.

The Organization believes that it has appropriate support for any tax positions taken affecting its annual filing requirements, and as such, does not have any uncertain tax positions that are material to the financial statements. The Organization would recognize future accrued interest and penalties related to unrecognized tax liabilities in income tax expense if such interest and penalties are incurred.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the reporting date and revenues and expenses during the reporting period. Actual results could differ materially from those estimates.

Functional Allocation of Expenses

The costs of providing programs and activities have been summarized on a functional basis in the accompanying statements of functional expenses, which presents the natural classification detail of expenses by function. Expenses are charged directly to program services or supporting services categories based on direct expenses incurred. An expense not directly chargeable to a functional expense category is allocated based on personnel activity, square footage and other criteria. The expenses that are allocated based on square footage include occupancy and depreciation. Salaries and benefits, insurance, and other, are allocated based on estimated time and effort.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Organization considers all highly liquid investments with initial maturities of three months or less to be cash equivalents.

Patient Accounts Receivable

Patient receivables are uncollateralized patient and third-party payor obligations. The Organization does not charge interest on unpaid patient receivables. Payments of patient receivables are allocated to the specific claims identified in the remittance advice, or if unspecified, on self-paid claims are applied to the earliest unpaid claim.

Patient accounts receivables are reduced by an allowance for implicit and explicit price concessions. In evaluating the collectability of accounts receivable, the Organization analyzes accounts for adverse changes in a patient's or third-party's ability to pay that may have occurred subsequent to recognition. Management regularly reviews specific data about receivable balances and its past history with similar cases to estimate the appropriate allowance for implicit and explicit price concessions.

The Organization's patient receivable balance as of January 1, 2022 was \$3,501,045.

Beneficial Interest in Charitable Trusts Held by Others

The Organization has been named as an irrevocable beneficiary of a charitable trust held and administered by an independent trustee. This trust was created independently by donors and are administered by outside agents designated by the donors. The Organization has neither possession nor control over the assets of the trust. At the date the Organization receives notice of a beneficial interest, a contribution with donor restrictions is recorded in the statement of changes in net assets and a beneficial interest in charitable trusts held by others is recorded in the balance sheet at fair value using present value techniques and risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the expected distributions to be received under the agreement. Thereafter, beneficial interests in the trusts are reported at fair value in the balance sheet, which changes in fair value recognized in the statement of changes in net assets.

Upon receipt of trust distributions or expenditures, or both, in satisfaction of the donor-restricted purpose, if any, net assets with donor-imposed time or purpose restrictions are released to net assets without donor restrictions. Trust distributions with donor-imposed restrictions that are perpetual in nature are transferred to the endowment, in which case, net assets with donor-restrictions are not released.

Investments

Investments in equity securities with readily determinable fair values and all investments in debt securities, are reported at their fair values in the statement of financial position. The fair values are based on quoted market prices. Donated investments are recorded at the market value on the date of donation. Unrealized gains and losses are included in the performance indicator. Investment income is reported net of related investment expenses.

Property and Equipment

Property and equipment additions in excess of \$5,000 are recorded at cost, or if donated, at fair value on the date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets ranging from 1 to 25 years. When assets are sold or otherwise disposed of, the cost and related depreciation is removed from the accounts, and any resulting gain or loss is included in the statements of operations. Costs of maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed currently.

The estimates useful lives of property and equipment are as follows:

Land improvements	5-20 years
Buildings	25 years
Building improvements	1-20 years
Office furniture and equipment	1-10 years
Vehicles	1-5 years

Gifts of long-lived assets such as land, buildings, or equipment are reported as additions to net assets without donor restrictions and are excluded from the performance indicator, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when donated or when acquired long-lived assets are placed in service.

The Organization considers whether indicators of impairment are present and performs the necessary analysis to determine if the carrying values of assets are appropriate. No impairment was identified for the years ended December 31, 2023 and 2022

Patient Services Recognition of Revenue

Patient service revenue is reported at the amount that reflects the consideration to which the Organization expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payors (including health insurers and government programs), and others and includes variable consideration for retroactive revenue adjustments due to settlement of audits, reviews and investigations. Generally, the Organization bills the patients and third-party payors at the end of the month for services provided. Revenue is recognized as performance obligations are satisfied.

Performance obligations are determined based on the nature of the services provided by the Organization. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected (or actual) charges. The Organization believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to patients receiving hospice, palliative, or primary care services. The Organization measures the performance obligation through visits to the patient up to the point when it is no longer required to provide services to that patient. Revenue for performance obligations satisfied at a point in time is recognized when goods or services are provided, and the Organization does not believe it is required to provide additional goods or services to the patient.

The Organization determines the transaction price based on standard charges for goods and services provided, reduced by contractual adjustments provided to third-party payors, discounts provided to uninsured patients in accordance with the Organization's policy, and/or implicit price concessions provided to uninsured patients. The Organization determines its estimates of contractual adjustments and discounts based on contractual agreements, its discount policies and historical experience. The Organization determines its estimate of implicit price concessions based on its historical collection experience with this class of patients.

Consistent with the Organization's mission, care is provided to patients regardless of their ability to pay. Therefore, the Organization has determined it has provided implicit price concessions to uninsured patients and patients with other uninsured balances (for example, copays and deductibles). The implicit price concessions included in estimating the transaction price represent the difference between amounts billed to patients and the amounts the Organization expects to collect based on its collection history.

Charity Care

The Organization has a policy for providing necessary care to hospice and palliative care patients regardless of third-party reimbursement status. The Organization relies on contributions and grants from the community to ensure that charity care services continue to be offered. The Organization provided \$265,287 and \$317,853 in charity care support based on charges forgone for the years ended December 31, 2023 and 2022 at an estimated cost of \$269,000 and \$313,000, respectively. The estimated cost of providing these services was calculated by multiplying the ratio of cost to gross charges for the Organization by the gross uncompensated charges associated with providing charity to care to its patients.

Retail Revenue Recognition

For performance obligations related to the sale of items at the Organization's thrift shoppes, control transfers to the customer at a point in time. The Organization records revenue for retail sales at the point of sale when delivery to the customer occurred.

Performance Indicator

Revenues in excess of (less than) expenses is the performance indicator and excludes contributions of long-lived assets, which includes assets acquired using contributions which were restricted by donors.

Contributions and Grants

The Organization reports contributions restricted by donors as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restricted net assets, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of changes in net assets as net assets released from restrictions.

Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met.

In-kind Contributions

In-kind contributions include donated professional services, donated equipment, and other in-kind contributions which are recorded at the respective fair values of the goods and services received. In addition to in-kind contributions, volunteers contribute significant amounts of time to program services, administration, thrift shoppes, and fundraising and development activities; however, the financial statements do not reflect the value of these contributed services because they do not meet recognition criteria prescribed by generally accepted accounting principles. Contributed goods are recorded at fair value at the date of donation.

All in-kind contributions received during the years ended December 31, 2023 and 2022 were unrestricted.

Advertising Costs

Costs incurred for producing and distributing advertising are expensed as incurred. The Organization incurred \$207,833 and \$245,401 for advertising costs for the years ended December 31, 2023 and 2022, respectively.

Financial Instruments and Credit Risk

Deposit concentration risk is managed by placing cash, money market accounts and investments with financial institutions believed to be creditworthy. At times, amounts on deposit may exceed insured limits or include uninsured investments in money market mutual funds. To date, the Organization has not experienced losses in any of these accounts. Although the fair values of investments are subject to fluctuation on a year-to-year basis, management believes that the investment policies and guidelines are prudent for the long-term welfare of the organization.

The Organization maintains its cash in bank deposit accounts which exceed federally insured limits. Accounts are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per depositor, per insured bank, for each account ownership category. At December 31, 2023 and 2022, the Organization has approximately \$2,988,000 and \$2,688,000, respectively, in excess of FDIC-insured limits.

Subsequent Events

Subsequent events have been evaluated through May 21, 2024, the date the financial statements were available to be issued.

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:

	2023	2022
Cash and Cash Equivalents	\$ 2,980,962	\$ 2,814,765
Patient Accounts Receivable, Net	4,559,962	4,210,407
Total	\$ 7,540,924	\$ 7,025,172

The Organization’s endowment fund consists of one donor-restricted endowment. Income from the donor-restricted endowment is restricted for specific purpose of the Bruns House ongoing operations on an annual basis. Donor-restricted endowment funds are not available for general expenditures.

As part of the Organization’s liquidity management plan, the Organization retains at least \$2,300,000 in an operating account. On a monthly basis, cash in excess of this amount is transferred to an investments account. Cash is invested in Fixed Income Mutual Funds, Preferred Stocks, Domestic and Foreign based Equities and Mutual Funds and Common Stock. As the Organization's governance does not intend to use its investments, including the interest and dividends receivable, for general expenditure within one year of the balance sheet date, investments are not included in the above table, but could be made available as needed.

Note 4 - Patient Service Revenue

The Organization has agreements with third-party payors that provide for prospectively determined daily rates. A summary of the payment arrangements with major third-party payors is as follows:

Medicare and Medicaid – The Organization’s services provided to Medicare and Medicaid program beneficiaries are paid at prospectively determined rates. The rates vary according to level of care and where the patient lives. These rates are not subject to retroactive adjustments.

The Organization has also entered into payment agreements with certain commercial insurance carriers and other organizations. The payment methodology under these agreements is similar to Medicare and Medicaid, although the amounts are different.

Concentrations of net revenues by major payor accounted for the following percentage of the Organization's patient service revenues for the years ended December 31, 2023 and 2022:

	2023	2022
Medicare	90%	91%
Medi-Cal	3%	3%
Commercial Insurance	5%	5%
Private Pay	2%	1%
	100%	100%

Generally, patients who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. The Organization also provides services to uninsured patients, and offers those uninsured patients a discount, either by policy or law, from standard charges. The Organization estimates the transaction price for patients with deductibles and coinsurance and from those who are uninsured based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any contractual adjustments, discounts and implicit price concessions based on historical collection experience. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change. The ability to estimate the collectability of uninsured and other self-pay patients is contingent on the patient's ability or willingness to pay for the services provided. Subsequent changes that are determined to be the result of an adverse change in the patient's ability to pay are recorded as credit loss expense.

The nature, amount, timing and uncertainty of revenue and cash flows are affected by several factors that the Organization considers in its recognition of revenue. Following are some of the factors considered:

- Payors (for example, Medicare, Medicaid, managed care or other insurance, patient) have different reimbursement/payment methodologies.
- Length of the patient's service/episode of care.
- Geography of the service location.
- The Organization's line of businesses that provided the service (for example, hospice, palliative, inpatient, etc.).

For the years ended December 31, 2023 and 2022, the Organization recognized patient revenue of \$27,745,652 and \$28,777,320 from services and goods provided over time.

Note 5 - Property and Equipment

	<u>2023</u>	<u>2022</u>
Land	\$ 3,875,000	\$ 3,875,000
Land Improvements	219,244	211,314
Building	4,025,008	4,025,008
Building Improvements	1,058,223	1,014,213
Office Furniture, Equipment, and Software	2,307,602	2,032,235
Vehicles	795,068	799,977
Construction in Progress	<u>108,526</u>	<u>74,595</u>
Gross Property and Equipment	12,388,671	12,032,342
Less: Accumulated Depreciation	<u>(5,263,678)</u>	<u>(4,667,800)</u>
 Net property and equipment	 <u>\$ 7,124,993</u>	 <u>\$ 7,364,542</u>

Depreciation expense charged to operations was \$604,512 in 2023 and \$553,140 in 2022.

Note 6 - Investments

Investments consist of the following at December 31, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Fixed Income	\$ 15,653,838	\$ 16,192,728
Equity Securities	8,826,914	7,335,508
Mutual Funds-Equities	3,124,712	2,324,366
Warrants and Rights	<u>-</u>	<u>1,526</u>
 Total Investments	 <u>\$ 27,605,464</u>	 <u>\$ 25,854,128</u>

Investments are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least possible that changes in risks in the near term could materially affect account balances and the amounts reported in the accompanying financial statements.

Investment income consisted of the following for the years ended December 31, 2023 and 2022:

	2023	2022
Investment Income		
Interest and dividend income, net	\$ 893,235	\$ 843,774
Realized loss	(86,858)	(11,317)
Unrealized gain (loss)	2,591,520	(3,108,339)
Investment fees	(51,526)	(41,027)
	\$ 3,346,371	\$ (2,316,909)
Changes in Net Assets with Donor Restrictions		
Interest and dividend income, net	\$ 43,142	\$ (36,020)

Note 7 - Fair Value Measurements

The Organization reports certain assets and liabilities at fair value in the financial statements. Fair value is the price that would be received when selling an asset or paid to transfer a liability in an orderly transaction in the principal, or most advantageous, market at the measurement date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique. Inputs used to determine fair value refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability based on the best information available.

A three-tier hierarchy categorizes the inputs as follows:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities that can be accessed at the measurement date.

Level 2 – Inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, and market-corroborated inputs.

Level 3 – Unobservable inputs for the asset or liability. In these situations, inputs are developed using the best information available in the circumstances.

In some cases, the inputs used to measure the fair value of an asset or a liability might be categorized within different levels of the fair value hierarchy. In those cases, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest input level that is significant to the entire measurement. Assessing the significance of a particular input to the entire measurement requirement judgment taking into account factors specific to the asset or liability. The categorization of an asset within the hierarchy is based upon the pricing transparency of the asset and does not necessarily correspond to an assessment of the quality, risk or liquidity profile of the asset or liability.

A portion of the investments are classified within Level 1 because they comprise various mutual funds and equities with readily determinable fair values based on daily redemption values. Fixed income securities are valued by the custodians of the securities using pricing models based on credit quality, time to maturity, stated interest rates and market-rate assumptions, and are classified within Level 2. The fair value of the beneficial interest in the charitable trust is determined by using present value techniques and risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the underlying assets and are based on the fair values of the trust investments as reported by the trustee.

The following table presents the balances of the assets measured at fair value on a recurring basis at December 31, 2023:

	Fair Value Measurements at Report Date Using			Total
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Investments				
Fixed income	\$ -	\$ 15,653,838	\$ -	\$ 15,653,838
Equity securities	8,826,914	-	-	8,826,914
Mutual funds-equities	3,124,712	-	-	3,124,712
	<u>\$ 11,951,626</u>	<u>\$ 15,653,838</u>	<u>\$ -</u>	<u>\$ 27,605,464</u>
Beneficial interest in charitable trust	<u>\$ -</u>	<u>\$ 208,013</u>	<u>\$ -</u>	<u>\$ 208,013</u>

The following table presents the balances of the assets measured at fair value on a recurring basis at December 31, 2022:

	Fair Value Measurements at Report Date Using			Total
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Investments				
Fixed income	\$ -	\$ 16,192,728	\$ -	\$ 16,192,728
Equity securities	7,335,508	-	-	7,335,508
Mutual funds-equities	2,324,366	-	-	2,324,366
Publicly traded other	1,526	-	-	1,526
	<u>\$ 9,661,400</u>	<u>\$ 16,192,728</u>	<u>\$ -</u>	<u>\$ 25,854,128</u>
Beneficial Interest in charitable trust	<u>\$ -</u>	<u>\$ 169,460</u>	<u>\$ -</u>	<u>\$ 169,460</u>

Note 8 - Leases

The Organization leases certain office space and thrift shops for various terms under long-term, non-cancelable operating lease agreements. The leases expire at various dates through 2030 and provide for renewal options ranging from three to five years. The Organization included in the determination of the right-of-use assets and lease liabilities any renewal options when the options are reasonably certain to be exercised. The leases provide for increases in future minimum annual rental payments based on defined increases in the Consumer Price Index, subject to certain minimum or maximum increases. Also, the agreements generally require the Company to pay real estate taxes, insurance, and repairs.

The weighted-average discount rate is based on the discount rate implicit in the lease. If the implicit rate is not readily determinable from the lease, the Organization estimates an applicable incremental borrowing rate. The incremental borrowing rate is estimated using the Organization's applicable borrowing rates and the contractual lease term.

The Organization has elected the short-term lease exemption for all leases with a term of 12 months or less for both existing and ongoing operating leases to not recognize the asset and liability for these leases. Lease payments for short-term leases are recognized on a straight-line basis.

Total lease costs for the years ended December 31, 2023 and 2022 were as follows:

	2023	2022
Operating Lease Cost	\$ 862,758	\$ 838,669

The following table summarizes the supplemental cash flow information for the years ended December 31, 2023 and 2022:

	2023	2022
Cash Paid for Amounts Included in The Measurement of Lease Liabilities		
Operating cash flows from operating leases	\$ 858,562	\$ 814,227
Right of Use Assets Obtained in Exchange for Lease Liabilities		
Operating leases	\$ 83,246	\$ -

The following summarizes the weighted-average remaining lease term and weight-average discount rate:

	2023	2022
Weighted-Average Remaining Lease Term:		
Operating leases	3.38 years	4.26 years
Weighted-Average Discount Rate:		
Operating leases	4.24%	4.31%

The future minimum lease payments under noncancelable operating leases with terms greater than one year are listed below as of December 31, 2023:

	Amount
2024	\$ 705,906
2025	606,278
2026	399,733
2027	237,466
2028	177,698
Thereafter	181,556
Total Lease Payments	2,308,637
Less interest	(182,347)
Present Value of Lease Liabilities	\$ 2,126,290

Note 9 - Line of Credit

The Organization has a bank line of credit for \$4,000,000. The line of credit is secured by the Organization's investment portfolio. Interest is charged on the outstanding balance at the prime rate less 1.75%. The prime rate at December 31, 2023 was 8.0% so the interest rate on the line of credit was 6.25%. There was a balance of \$0 and \$338,508 at December 31, 2023 and 2022, respectively. The line of credit expires July 15, 2025.

The Organization has a second bank line of credit for \$500,000. The line of credit is secured by real property. Interest is charged on the outstanding balance at 2.538% above the SOFR (Secured Overnight Financing Rate) index. There were no outstanding balances at December 31, 2023 and 2022. The line of credit does not have a pre-set maturity date.

Note 10 - Net Assets with Donor Restrictions

Net assets with donor restrictions are restricted for the following purposes or periods:

	2023	2022
Subject to Expenditure for Specified Purpose		
Respite care	\$ 177,395	\$ 173,108
Give me a break	507,499	515,027
Music and memory	20,952	27,127
Veterans program	1,000	-
Earnings on restricted funds to be allocated to specific purposes	238,369	206,455
	945,215	921,717
Subject to The Passage of Time		
Beneficial interest in charitable trust	208,013	169,460
Endowments		
Held in perpetuity, the income from which is expendable to support Bruns House	500,000	500,000
	\$ 1,653,228	\$ 1,591,177

During 2023 and 2022, net assets were released from donor restrictions by incurring expenditures satisfying the restricted purposes and the expiration of time restrictions in the amounts of \$311,049 and \$246,040 as detailed below. These amounts are included in net assets released from restrictions in the accompanying financial statements.

	2023	2022
Satisfaction of Purpose Restrictions		
Volunteer Program Donations	\$ 2,758	\$ 4,750
Bereavement - General	1,589	5,621
Bruns House general	171,334	84,480
Childrens Program	550	808
Education	309	957
Rossmoor Respite Care donation	-	1,728
Give me a Break Respite	9,203	10,895
Spiritual Care	412	204
Patient Care	6,163	9,912
Palliative Care	54,872	21,295
Music & Memory	6,378	4,255
Music Therapist	57,481	1,135
Satisfaction of Time Restriction	-	100,000
Total	\$ 311,049	\$ 246,040

Note 11 - Endowment

The Organization's endowment (the Endowment) consists of an individual fund, the Bruns House, established by a donor to provide annual funding for the ongoing expenses at Bruns House. The Organization determined the net assets forming the Bruns House Fund is legally restricted as an endowment fund and should therefore be reported as net assets with donor restrictions. The Organization's Board of Directors has interpreted the California Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the date of the donor-restricted endowment funds, unless there are explicit donor stipulations to the contrary. At December 31, 2023 and 2022, there were no such donor stipulations. As a result of this interpretation, the Organization retains in perpetuity (a) the original value of initial and subsequent gift amounts and (b) any accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added.

The following factors are considered in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund.
- The purposes of the Organization and the donor-restricted endowment fund.
- General economic conditions.
- The possible effect of inflation and deflation.
- The expected total return from income and the appreciation of investments.
- Other resources of the Organization.
- The investment policies of the Organization.

As of December 31, 2023 and 2022, the Organization had the following endowment net asset composition by type of fund:

	Without Donor Restrictions	With Donor Restrictions	Total
<u>December 31, 2023</u>			
Donor-Restricted Endowment Funds			
Original donor-restricted gift amounts required to be maintained in perpetuity	\$ -	\$ 500,000	\$ 500,000
	Without Donor Restrictions	With Donor Restrictions	Total
<u>December 31, 2022</u>			
Donor-Restricted Endowment Funds			
Original donor-restricted gift amounts	\$ -	\$ 500,000	\$ 500,000

From time to time, certain donor-restricted endowment funds may have fair values less than the amount required to be maintained by donors or by law (underwater endowments). The Organization has interpreted UPMIFA to permit spending from underwater endowments in accordance with prudent measures required by law. At December 31, 2023 and 2022, there were no underwater endowments.

Investment and Spending Policies

The Organization has adopted an investment policy that attempts to maximize total return consistent with acceptable levels of risk, which applies to all investments, including the endowment fund. Endowment assets are invested in a well-diversified asset mix, which includes equity and debt securities, in order to minimize the risk of large losses. A well-qualified investment advisor maintains the portfolio; efforts are made to control risk and are evaluated regularly to ensure that the risk assumed is commensurate with the given objectives.

Changes in endowment net assets for the years ended December 31, 2023 and 2022 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Balance as of December 31, 2021	\$ -	\$ 500,000	\$ 500,000
Investment income	-	-	-
Balance as of December 31, 2022	-	500,000	500,000
Investment income	-	-	-
Balance as of December 31, 2023	\$ -	\$ 500,000	\$ 500,000

Note 12 - Fund Development

Fund development activities reported individually in accordance with the applicable financial reporting framework in the statements of operations are summarized as follows for the years ended December 31, 2023 and 2022:

<u>December 31, 2023</u>	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Contributions and Grants	\$ 834,310	\$ 291,405	\$ 1,125,715
Special Events, Net	156,452	-	156,452
Net Assets Released from Restriction	<u>311,049</u>	<u>(311,049)</u>	<u>-</u>
	<u>\$ 1,301,811</u>	<u>\$ (19,644)</u>	<u>\$ 1,282,167</u>
<u>December 31, 2022</u>	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Contributions and Grants	\$ 1,050,147	\$ 188,023	\$ 1,238,170
Special Events, Net	176,983	-	176,983
Net Assets Released from Restriction	<u>246,040</u>	<u>(246,040)</u>	<u>-</u>
	<u>\$ 1,473,170</u>	<u>\$ (58,017)</u>	<u>\$ 1,415,153</u>

Note 13 - Retirement Plan (403b Plan)

The Organization provides a salary deferral plan for all eligible employees. Upon completing 1,000 hours of service, the employer matches up to \$2,000 annually per employee. The employer matching contributions to the plan were \$281,634 and \$288,272 for the years ended December 31, 2023 and 2022, respectively.

Note 14 - Concentration of Credit Risk

The Organization grants credit without collateral to its patients, most of whom are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at December 31, 2023 and 2022 was as follows:

	<u>2023</u>	<u>2022</u>
Medicare	76%	82%
Medi-Cal	18%	8%
Other Third-Party Payors	5%	9%
Patients	<u>1%</u>	<u>1%</u>
	<u>100%</u>	<u>100%</u>

Note 15 - Commitments and Contingencies

State and Federal Revenue

The Organization receives patient services revenue from Federal and State funds for specific purposes that are subject to review and audit by the governmental agencies. Although such audits could generate expenditure disallowances under terms of the payments from the Federal and State agencies, in the opinion of management, any required reimbursements will not be material.

Litigations, Claims, and Disputes

The Organization is subject to the usual contingencies in the normal course of operations relating to the performance of its tasks under its various programs. Management assesses the ultimate settlement of any litigations, claims, and disputes in process in determining whether a liability should be recorded, or a disclosure should be presented.

The healthcare industry is subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations, specifically those relating to Medicare and Medi-Cal program, can be subject to government review and interpretations, as well as regulatory actions unknown and unasserted at this time. Federal government activity with respect to investigations and allegations concerning possible violations of regulations by healthcare providers could result in the imposition of significant fines and penalties, as well as significant repayments of previously billed and collected revenues from patient services.

Paycheck Protection Program Loan (PPP)

Loans issued under the PPP were subject to good-faith certifications of the necessity of the loan request. Borrowers with loans issued under the program in excess of \$2 million are subject to review by the Small Business Administration (SBA) for compliance with the program requirements. If the SBA determines that a borrower lacked an adequate basis for the loan or did not meet the program requirements, the loan will not be eligible for loan forgiveness and the SBA will seek repayment of the outstanding loan balance. As such, the potential exists that the Organization may be deemed ineligible for loan forgiveness and be required to repay the loan.

The Organization applied for and received loan forgiveness from the SBA on its PPP loan in 2021. In accordance with PPP loan requirements, the Organization is required to maintain PPP loan files and certain underlying supporting documents for periods ranging from three to six years. The Organization is also required to permit access to such files upon request by the SBA. Accordingly, there is potential the PPP loan could be subject to further review by the SBA and that previously recognized forgiveness could be reversed based on the outcome of this review.

Note 16 - Risk Management

The Organization is exposed to various risks of loss in the ordinary course of business as a result of torts, theft of, damage to, or destruction of assets, business interruption, allegations of medical malpractice (professional liability), natural disasters, injury, employee and officer errors and omissions, and employee workers' compensation and medical claims. The Organization purchases commercial insurance coverage against risk of loss due to errors and omissions, fiduciary liability, property damage and theft, pollution liability, and various other insurable risks. Professional liability coverage is on a claims-made basis with limits of \$3 million per occurrence subject to a \$5 million aggregate limit.

The Organization is a member of BETA Healthcare Group (BETA) for workers' compensation coverage. BETA provides coverage to hospitals, healthcare facilities and medical groups. BETA is a risk management joint powers authority (JPA) formed pursuant to the California Government Code. The purpose of the JPA is to purchase and administer workers' compensation insurance for the pooling of self-insured losses and to purchase excess insurance coverage whereby the risk of loss is mitigated by the JPA. BETA purchases workers' compensation insurance under a claims-made policy with limits of \$2 million per occurrence. BETA also purchases excess insurance coverage for claims in excess of \$2 million up to statutory limits.

BETA members are assessed a contribution for each program in which they participate. Members may be subject to additional supplemental assessments if it is determined that the contributions are insufficient. Members may withdraw from BETA with thirty day written advance notice. BETA may cancel a membership for failure to implement loss control or risk management recommendations upon a majority vote of the Board of Directors and with sixty days written notice. Upon withdrawal or cancellation, a member shall not remain subject to additional assessments for the program periods they have participated.

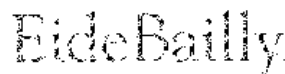


Financial Statements
December 31, 2022 and 2021

East Bay Integrated Care, Inc.
dba Hospice of the East Bay



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CPA'S & BUSINESS ADVISORS

Independent Auditor's Report

To the Board of Directors
East Bay Integrated Care, Inc.
Pleasant Hill, California

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of East Bay Integrated Care, Inc. (Organization), which comprise the balance sheets as of December 31, 2022 and 2021, and the related statements of operations, changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Organization as of December 31, 2022 and 2021, and the results of its operations, changes in net assets, and 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 audit 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 the Organization 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.

Change in Accounting Principle

As discussed in Note 3 to the financial statements, the Organization has adopted the provisions of FASB Accounting Standards Codification Topic 842, *Leases*, as of January 1, 2022 using the modified retrospective approach with an adjustment at the beginning of the adoption period. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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 financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 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 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 financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

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

[REDACTED]

Fargo, North Dakota
June 30, 2023

East Bay Integrated Care, Inc.

Balance Sheets

December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 2,814,765	\$ 5,437,120
Patient accounts receivable, net	4,210,407	3,501,045
Interest and dividends receivable	119,451	99,736
Contributions receivable	-	100,000
Prepaid expenses and other	<u>470,627</u>	<u>496,096</u>
Total current assets	<u>7,615,250</u>	<u>9,633,997</u>
Noncurrent Assets		
Beneficial interest in charitable trust	169,460	211,127
Investments	25,854,128	26,303,115
Property and equipment, net	7,364,542	7,150,093
Right-of-use asset, net	2,172,761	-
Deposits	<u>221,832</u>	<u>247,365</u>
Total noncurrent assets	<u>35,782,723</u>	<u>33,911,700</u>
Total assets	<u>\$ 43,397,973</u>	<u>\$ 43,545,697</u>

East Bay Integrated Care, Inc.
Balance Sheets
December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 720,801	\$ 669,993
Line of credit	338,508	-
Accrued expenses	1,807,546	1,928,416
Funds held for others	5,078	6,054
Unearned revenue	-	21,874
Operating lease liability	<u>703,555</u>	<u>-</u>
Total current liabilities	3,575,488	2,626,337
Noncurrent Liabilities		
Operating lease liability	<u>1,493,648</u>	<u>-</u>
Total liabilities	<u>5,069,136</u>	<u>2,626,337</u>
Net Assets		
Without donor restrictions		
Undesignated	<u>36,737,660</u>	<u>39,192,479</u>
With donor restrictions		
Purpose restrictions	1,421,717	1,415,754
Time-restricted for future periods	<u>169,460</u>	<u>311,127</u>
Total net assets with donor restrictions	<u>1,591,177</u>	<u>1,726,881</u>
Total net assets	<u>38,328,837</u>	<u>40,919,360</u>
Total liabilities and net assets	<u>\$ 43,397,973</u>	<u>\$ 43,545,697</u>

East Bay Integrated Care, Inc.
Statements of Operations
Years Ended December 31, 2022 and 2021

	2022	2021
Revenue, Gains, and Other Support Without Donor Restrictions		
Patient service revenue	\$ 28,777,320	\$ 30,683,590
Retail revenue	3,242,546	2,866,845
Special events, net	176,983	198,777
Contributions - Paycheck Protection Program Loan	-	3,495,364
Other income	42	1,050
Net assets released from restriction for operations	246,040	196,557
Total revenues, gains, and other support	32,442,931	37,442,183
Expenses		
Salaries and benefits	23,781,514	24,242,303
Contract labor and services	2,473,099	1,761,238
Occupancy	2,204,635	2,335,358
Medical supplies and equipment	1,404,104	1,408,572
Other expenses	845,827	885,293
Pharmacy, therapies, hospital and laboratory	824,570	769,955
Professional fees	556,401	396,609
Depreciation and amortization	553,140	509,753
Inpatient facility	242,834	224,542
Patient related transportation	268,350	294,170
General liability insurance	233,367	177,100
Printing and office supplies	183,106	158,856
Education	123,070	48,683
Total expenses	33,694,017	33,212,432
Operating Income (Loss)	(1,251,086)	4,229,751
Other Income (Expense)		
Rental income	63,029	142,155
Investment income	(2,316,909)	2,461,309
Unrestricted contributions and grants	1,050,147	1,043,265
Contributions - Provider Relief Funds	-	654,382
Total other income, net	(1,203,733)	4,301,111
Revenues in Excess of (Less Than) Expenses and Change in Net Assets Without Donor Restrictions	\$ (2,454,819)	\$ 8,530,862

East Bay Integrated Care, Inc.
 Statements of Changes in Net Assets
 Years Ended December 31, 2022 and 2021

	2022	2021
Net Assets Without Donor Restrictions		
Revenues in excess of (less than) expenses and change in net assets without donor restrictions	\$ (2,454,819)	\$ 8,530,862
Net Assets With Donor Restrictions		
Contributions restricted by donors	188,023	162,144
Change in beneficial interest in charitable trust	(41,667)	140,249
Investment income	(36,020)	40,114
Net assets released from restrictions	(246,040)	(196,557)
Change in net assets with donor restrictions	(135,704)	145,950
Change in Net Assets	(2,590,523)	8,676,812
Net Assets, Beginning of Year	40,919,360	32,242,548
Net Assets, End of Year	\$ 38,328,837	\$ 40,919,360

East Bay Integrated Care, Inc.
Statements of Functional Expenses
Year Ended December 31, 2022

	Program Services		Supporting Services			Total
	Hospice Care	Bruns	General and Administrative	Fundraising	Retail	
Salaries and benefits	\$ 15,794,250	\$ 1,890,793	\$ 4,015,063	\$ 433,520	\$ 1,647,888	\$ 23,781,514
Contract labor and services	2,126,547	68,710	277,842	-	-	2,473,099
Occupancy	178,662	-	900,565	-	1,125,408	2,204,635
Medical supplies and equipment	1,404,104	-	-	-	-	1,404,104
Other expenses	216,164	140	462,057	62,449	105,017	845,827
Pharmacy, therapies, hospital and laboratory	824,570	-	-	-	-	824,570
Professional fees	108,446	-	447,955	-	-	556,401
Depreciation	62,840	50,755	401,486	-	38,059	553,140
Inpatient facility	3,207	239,627	-	-	-	242,834
Patient related transportation	260,298	8,052	-	-	-	268,350
General liability insurance	686	-	231,487	-	1,194	233,367
Printing and office supplies	78,195	-	61,609	26,073	17,229	183,106
Lducation	47,228	-	75,347	-	495	123,070
Total expenses	<u>\$ 21,105,197</u>	<u>\$ 2,258,077</u>	<u>\$ 6,873,411</u>	<u>\$ 522,042</u>	<u>\$ 2,935,290</u>	<u>\$ 33,694,017</u>

See Notes to Financial Statements

East Bay Integrated Care, Inc.
 Statements of Functional Expenses
 Year Ended December 31, 2021

	Program Services		Supporting Services			Total
	Hospice Care	Bruns	General and Administrative	Fundraising	Retail	
Salaries and benefits	\$ 16,560,747	\$ 1,931,296	\$ 3,810,990	\$ 440,212	\$ 1,499,058	\$ 24,242,303
Contract labor and services	1,395,913	29,068	336,257	-	-	1,761,238
Occupancy	203,662	-	1,104,382	-	1,027,314	2,335,358
Medical supplies and equipment	1,408,572	-	-	-	-	1,408,572
Other expenses	370,744	140	385,199	46,763	82,447	885,293
Pharmacy, therapies, hospital and laboratory	769,955	-	-	-	-	769,955
Professional fees	96,809	-	299,800	-	-	396,609
Depreciation	18,068	56,462	393,823	-	41,400	509,753
Inpatient facility	15,225	209,317	-	-	-	224,542
Patient related transportation	288,448	5,722	-	-	-	294,170
General liability insurance	686	-	176,414	-	-	177,100
Printing and office supplies	64,466	-	64,467	21,490	8,433	158,856
Education	20,577	-	27,583	230	293	48,683
Total expenses	\$ 21,213,872	\$ 2,232,005	\$ 6,598,915	\$ 508,695	\$ 2,658,945	\$ 33,212,432

See Notes to Financial Statements

East Bay Integrated Care, Inc.
Statements of Cash Flows
Years Ended December 31, 2022 and 2021

	2022	2021
Operating Activities		
Change in net assets	\$ (2,590,523)	\$ 8,676,812
Adjustments to reconcile change in net assets to net cash from operating activities		
Net realized and unrealized (gain) loss on investments	3,119,161	(1,949,582)
Donated securities	(75,134)	(36,064)
Depreciation and amortization	553,140	509,753
Change in beneficial interest of charitable trust	41,667	(140,249)
Paycheck Protection Program (PPP) loan forgiveness	-	(3,495,364)
Changes in assets and liabilities		
Patient accounts receivable, net	(709,362)	199,946
Interest and dividends receivable	(19,715)	(4,861)
Contributions receivable	100,000	-
Prepaid expenses and other	25,469	(42,296)
Deposits	25,533	(78,412)
Accounts payable	50,808	160,297
Accrued expenses	(120,870)	(126,163)
Funds held for others	(976)	(18,454)
Operating lease assets and liabilities	24,442	-
Refundable advance-Provider Relief Funds	-	(654,382)
Unearned revenue	(21,874)	17,477
Net Cash from Operating Activities	401,766	3,018,458
Investing Activities		
Purchases of investments	(8,982,839)	(20,133,209)
Proceeds from sales of investments	6,387,799	15,752,803
Purchases of property and equipment	(767,589)	(144,370)
Proceeds from sales of property and equipment	-	490,590
Net Cash used for Investing Activities	(3,362,629)	(4,034,186)
Financing Activity		
Increase in line of credit	338,508	-
Net Change in Cash and Cash Equivalents	(2,622,355)	(1,015,728)
Cash and Cash Equivalents, Beginning of Year	5,437,120	6,452,848
Cash and Cash Equivalents, End of Year	\$ 2,814,765	\$ 5,437,120

Note 1 - Nature of Operations

Organization

East Bay Integrated Care, Inc. (dba Hospice of the East Bay) (Organization) is a California nonprofit organization which provides hospice care to terminally ill patients and their families throughout Contra Costa, Alameda and Solano Counties. The Organization also operates a state licensed hospice inpatient facility in the East Bay, The Bruns House. Patient care services are usually covered by Medicare, Medi-Cal, and private insurance payors; however, not every patient accepted for care is eligible for insurance coverage, and not every service provided is included under such coverage. Medically qualified patients are accepted regardless of type of illness, age, color, sex, religious affiliation, or national origin. The Organization has specialty programs such as a community-based Palliative Care Program, the Give Me a Break respite program, the Bridge Program, the Tuck-In Program, We Honor Veterans Program, and the Music and Memory Program which has board-certified music therapists.

The Organization provides funding for charity care and other programs. The Organization receives support from grants, community donations and fundraising activities and annual special events. In addition, the Organization operates six thrift stores in Contra Costa County, which sell donated used clothing and household goods. The related sales and operating expenses are reported as Retail Operations in the statements of operations. Retail sales also include estate and vehicle sale proceeds.

Note 2 - Summary of Significant Accounting Policies

Basis of Accounting

The basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting refers to the timing of measurement made, regardless of the measurement focus applied. The accompanying financial statements of East Bay Integrated Care, Inc. have been prepared on the accrual basis of accounting. Revenues are recognized as performance obligations are satisfied and expenses are recognized when incurred.

Basis of Presentation

The accompanying financial statements have been prepared in accordance with Financial Accounting Standards Board (FASB) ASC 958 and ASC 954. Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – The Organization reports contributions that are not subject to donor-imposed restrictions as net assets without donor restrictions. Net assets without donor restrictions may be designated for specific purposes by action of the Board of Directors.

Net Assets with Donor Restrictions – The Organization reports contributions as net assets with donor restrictions if they are received with donor-imposed restrictions that can be met either by passage of time, or other events specified by the donor. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Income Taxes

The Organization is organized as a California nonprofit corporation and has been recognized by the Internal Revenue Service (IRS) as exempt from Federal and State income tax under Internal Revenue Code Section 501(c)(3) and Section 23701(d) of the Revenue and Taxation Code. The Organization is annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. In addition, the Organization is subject to income tax on net income that is derived from business activities that are unrelated to its exempt purpose. The Organization has determined it is not subject to unrelated business income tax and has not filed an Exempt Organization Business Income Tax Return (Form 990-T) with the IRS.

The Organization believes that it has appropriate support for any tax positions taken affecting its annual filing requirements, and as such, does not have any uncertain tax positions that are material to the financial statements. The Organization would recognize future accrued interest and penalties related to unrecognized tax liabilities in income tax expense if such interest and penalties are incurred.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the reporting date and revenues and expenses during the reporting period. Actual results could differ materially from those estimates.

Functional Allocation of Expenses

The costs of providing programs and activities have been summarized on a functional basis in the accompanying statements of functional expenses, which presents the natural classification detail of expenses by function. Expenses are charged directly to program services or supporting services categories based on direct expenses incurred. An expense not directly chargeable to a functional expense category is allocated based on personnel activity, square footage and other criteria. The expenses that are allocated based on square footage include occupancy and depreciation and amortization. Salaries and benefits, insurance, and other, are allocated based on estimated time and effort.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Organization considers all highly liquid investments with initial maturities of three months or less to be cash equivalents.

Patient Accounts Receivable

Patient receivables are uncollateralized patient and third-party payor obligations. The Organization does not charge interest on unpaid patient receivables. Payments of patient receivables are allocated to the specific claims identified in the remittance advice, or if unspecified, on self-paid claims are applied to the earliest unpaid claim.

Patient accounts receivables are reduced by an allowance for implicit and explicit price concessions. In evaluating the collectability of accounts receivable, the Organization analyzes accounts for adverse changes in a patient's or third-party's ability to pay that may have occurred subsequent to recognition. Management regularly reviews specific data about receivable balances and its past history with similar cases to estimate the appropriate allowance for implicit and explicit price concessions.

The Organization's patient receivable balance as of January 1, 2021 was \$3,700,991.

Beneficial Interest in Charitable Trusts Held by Others

The Organization has been named as an irrevocable beneficiary of a charitable trust held and administered by an independent trustee. This trust was created independently by donors and are administered by outside agents designated by the donors. The Organization has neither possession nor control over the assets of the trust. At the date the Organization receives notice of a beneficial interest, a contribution with donor restrictions is recorded in the statement of changes in net assets and a beneficial interest in charitable trusts held by others is recorded in the balance sheet at fair value using present value techniques and risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the expected distributions to be received under the agreement. Thereafter, beneficial interests in the trusts are reported at fair value in the balance sheet, which changes in fair value recognized in the statement of changes in net assets.

Upon receipt of trust distributions or expenditures, or both, in satisfaction of the donor-restricted purpose, if any, net assets with donor-imposed time or purpose restrictions are released to net assets without donor restrictions. Trust distributions with donor-imposed restrictions that are perpetual in nature are transferred to the endowment, in which case, net assets with donor-restrictions are not released.

Investments

Investments in equity securities with readily determinable fair values and all investments in debt securities, are reported at their fair values in the statement of financial position. The fair values are based on quoted market prices. Donated investments are recorded at the market value on the date of donation. Unrealized gains and losses are included in the performance indicator. Investment income is reported net of related investment expenses.

Property and Equipment

Property and equipment additions in excess of \$5,000 are recorded at cost, or if donated, at fair value on the date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets ranging from 5 to 25 years. When assets are sold or otherwise disposed of, the cost and related depreciation is removed from the accounts, and any resulting gain or loss is included in the statements of operations. Costs of maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed currently.

The estimates useful lives of property and equipment are as follows:

Land improvements	5-20 years
Buildings	25 years
Building improvements	1-20 years
Office furniture and equipment	1-10 years
Vehicles	1-5 years

Gifts of long-lived assets such as land, buildings, or equipment are reported as additions to net assets without donor restrictions and are excluded from the performance indicator, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when donated or when acquired long-lived assets are placed in service.

The Organization considers whether indicators of impairment are present and performs the necessary analysis to determine if the carrying values of assets are appropriate. No impairment was identified for the years ended December 31, 2022 and 2021.

Patient Services Recognition of Revenue

Patient service revenue is reported at the amount that reflects the consideration to which the Organization expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payors (including health insurers and government programs), and others and includes variable consideration for retroactive revenue adjustments due to settlement of audits, reviews and investigations. Generally, the Organization bills the patients and third-party payors at the end of the month for services provided. Revenue is recognized as performance obligations are satisfied.

Performance obligations are determined based on the nature of the services provided by the Organization. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected (or actual) charges. The Organization believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to patients receiving hospice, palliative, or primary care services. The Organization measures the performance obligation through visits to the patient up to the point when it is no longer required to provide services to that patient. Revenue for performance obligations satisfied at a point in time is recognized when goods or services are provided, and the Organization does not believe it is required to provide additional goods or services to the patient.

The Organization determines the transaction price based on standard charges for goods and services provided, reduced by contractual adjustments provided to third-party payors, discounts provided to uninsured patients in accordance with the Organization's policy, and/or implicit price concessions provided to uninsured patients. The Organization determines its estimates of contractual adjustments and discounts based on contractual agreements, its discount policies and historical experience. The Organization determines its estimate of implicit price concessions based on its historical collection experience with this class of patients.

Consistent with the Organization's mission, care is provided to patients regardless of their ability to pay. Therefore, the Organization has determined it has provided implicit price concessions to uninsured patients and patients with other uninsured balances (for example, copays and deductibles). The implicit price concessions included in estimating the transaction price represent the difference between amounts billed to patients and the amounts the Organization expects to collect based on its collection history.

Charity Care

The Organization has a policy for providing necessary care to hospice and palliative care patients regardless of third-party reimbursement status. The Organization relies on contributions and grants from the community to ensure that charity care services continue to be offered. The Organization provided \$317,853 and \$411,259 in charity care support based on charges forgone for the years ended December 31, 2022 and 2021 at an estimated cost of \$313,000 and \$373,000, respectively. The estimated cost of providing these services was calculated by multiplying the ratio of cost to gross charges for the Organization by the gross uncompensated charges associated with providing charity to care to its patients.

Retail Revenue Recognition

For performance obligations related to the sale of items at the Organization's thrift shoppes, control transfers to the customer at a point in time. The Organization records revenue for retail sales at the point of sale when delivery to the customer occurred.

Performance Indicator

Revenues in excess of (less than) expenses is the performance indicator and excludes contributions of long-lived assets, which includes assets acquired using contributions which were restricted by donors.

Contributions and Grants

The Organization reports contributions restricted by donors as increases in unrestricted net assets if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of changes in net assets as net assets released from restrictions.

Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met.

In-kind Contributions

In-kind contributions include donated professional services, donated equipment, and other in-kind contributions which are recorded at the respective fair values of the goods and services received. In addition to in-kind contributions, volunteers contribute significant amounts of time to program services, administration, thrift shoppes, and fundraising and development activities; however, the financial statements do not reflect the value of these contributed services because they do not meet recognition criteria prescribed by generally accepted accounting principles. Contributed goods are recorded at fair value at the date of donation.

All in-kind contributions received during the years ended December 31, 2022 and 2021 were unrestricted.

Advertising Costs

Costs incurred for producing and distributing advertising are expensed as incurred. The Organization incurred \$245,401 and \$324,750 for advertising costs for the years ended December 31, 2022 and 2021, respectively.

Financial Instruments and Credit Risk

Deposit concentration risk is managed by placing cash, money market accounts and investments with financial institutions believed to be creditworthy. At times, amounts on deposit may exceed insured limits or include uninsured investments in money market mutual funds. To date, the Organization has not experienced losses in any of these accounts. Although the fair values of investments are subject to fluctuation on a year-to-year basis, management believes that the investment policies and guidelines are prudent for the long-term welfare of the organization.

The Organization maintains its cash in bank deposit accounts which exceed federally insured limits. Accounts are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per depositor, per insured bank, for each account ownership category. At December 31, 2022 and 2021, the Organization has approximately \$2,688,000 and \$4,452,000, respectively, in excess of FDIC-insured limits.

Reclassifications

Certain reclassifications of amounts previously reported have been made to the accompanying financial statements to maintain consistency between period presented. The reclassifications had no impact on previously reported net assets.

Note 3 - Change in Accounting Principle

Effective January 1, 2022, the Organization adopted the new lease accounting guidance in Accounting Standards Update No. 2016-02, *Leases* (Topic 842). The Organization elected to apply the guidance as of January 1, 2022, the beginning of the adoption period. The comparative financial information and disclosures presented are in accordance with the legacy standard, ASC 840. The standard requires the recognition of right-of-use assets and lease liabilities for lease contracts with terms greater than 12 months. Operating lease costs are recognized in the income statement as a single lease cost and finance lease costs are recognized in two components, interest expense and amortization expense. The Organization has elected the package of practical expedients permitted in ASC Topic 842. Accordingly, the Organization accounted for its existing leases as either finance or operating lease under the new guidance, without reassessing (a) whether the contract contains a lease under ASC Topic 842, (b) whether classification of the operating lease would be different in accordance with ASC Topic 842, or (c) whether the unamortized initial direct costs before transition adjustments would have met the definition of initial direct costs in ASC Topic 842 at lease commencement.

As a result of the adoption of the new lease accounting guidance, the Organization recognized on January 1, 2022, the beginning of the adoption period, no cumulative effect adjustment to net assets, an operating lease liability of \$2,938,285, and an operating right-of-use asset of \$2,913,843. The adoption of the new standard did not materially impact the Organization's statements of operations or statements of cash flows. See Note 11 for further disclosure of the Organization's lease contracts.

Note 4 - 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:

	2022	2021
Cash and cash equivalents	\$ 2,814,765	\$ 5,437,120
Patient accounts receivable, net	4,210,407	3,501,045
Total	\$ 7,025,172	\$ 8,938,165

The Organization's endowment fund consists of one donor-restricted endowment. Income from the donor-restricted endowment is restricted for specific purpose of the Bruns House ongoing operations on an annual basis. Donor-restricted endowment funds are not available for general expenditures.

As part of the Organization's liquidity management plan, the Organization retains at least \$2,300,000 in an operating account. On a monthly basis, cash in excess of this amount is transferred to an investments account. Cash is invested in Fixed Income Mutual Funds, Preferred Stocks, Domestic and Foreign based Equities and Mutual Funds and Common Stock. As the Organization's governance does not intend to use its investments, including the interest and dividends receivable, for general expenditure within one year of the balance sheet date, investments are not included in the above table, but could be made available as needed. In addition, the contribution receivable is restricted by the donor.

Note 5 - Patient Service Revenue

The Organization has agreements with third-party payors that provide for prospectively determined daily rates. A summary of the payment arrangements with major third-party payors is as follows:

Medicare and Medicaid – The Organization's services provided to Medicare and Medicaid program beneficiaries are paid at prospectively determined rates. The rates vary according to level of care and where the patient lives. These rates are not subject to retroactive adjustments.

The Organization has also entered into payment agreements with certain commercial insurance carriers and other organizations. The payment methodology under these agreements is similar to Medicare and Medicaid, although the amounts are different.

Concentrations of net revenues by major payor accounted for the following percentage of the Organization's patient service revenues for the years ended December 31, 2022 and 2021:

	2022	2021
Medicare	94%	92%
Medi-Cal	2%	3%
Other third-party payors	4%	5%
	100%	100%

Generally, patients who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. The Organization also provides services to uninsured patients, and offers those uninsured patients a discount, either by policy or law, from standard charges. The Organization estimates the transaction price for patients with deductibles and coinsurance and from those who are uninsured based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any contractual adjustments, discounts and implicit price concessions based on historical collection experience. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change. The ability to estimate the collectability of uninsured and other self-pay patients is contingent on the patient's ability or willingness to pay for the services provided. Subsequent changes that are determined to be the result of an adverse change in the patient's ability to pay are recorded as implicit price concession. Implicit price concessions for the years ended December 31, 2022 and 2021 were (\$6,086) and \$100,923, respectively.

The nature, amount, timing and uncertainty of revenue and cash flows are affected by several factors that the Organization considers in its recognition of revenue. Following are some of the factors considered:

- Payors (for example, Medicare, Medicaid, managed care or other insurance, patient) have different reimbursement/payment methodologies
- Length of the patient's service/episode of care
- Geography of the service location
- The Organization's line of businesses that provided the service (for example, hospice, palliative, inpatient, etc.)

For the years ended December 31, 2022 and 2021, the Organization recognized patient revenue of \$28,777,320 and \$30,683,590 from services and goods provided over time.

Note 6 - Provider Relief Funds

The Organization received \$1,511,069 of Coronavirus Aid, Relief, and Economic Security (CARES) Act Provider Relief Funds administered by the Department of Health and Human Services (HHS). The funds are subject to terms and conditions imposed by HHS. Among the terms and conditions is a provision that payments will only be used to prevent, prepare for, and respond to coronavirus and shall reimburse the recipient only for healthcare-related expenses or lost revenues that are attributable to coronavirus. Recipients may not use the payments to reimburse expenses or losses that have been reimbursed from other sources or that other sources are obligated to reimburse. HHS currently has various deadlines to incur eligible expenses. Unspent funds will be expected to be repaid.

These funds are recorded as a refundable advance when received and are recognized as revenues in the accompanying statements of operations as all terms and conditions are considered met. The terms and conditions are subject to interpretation, changes and future clarification, the most recent of which have been considered through the date that the financial statements were available to be issued. In addition, this program may be subject to oversight, monitoring and audit. Failure by a provider that received a payment from the Provider Relief Fund to comply with any term or condition can subject the provider to recoupment of some or all the payment. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

During the years ended December 31, 2022 and 2021, the Organization recognized \$0 and \$654,382 as revenue in the accompanying statements of operations.

Note 7 - Paycheck Protection Program (PPP) Advance

The Organization was granted a \$3,495,364 loan under the PPP administered by a Small Business Administration (SBA) approved partner. The loan was uncollateralized and fully guaranteed by the Federal government. The Organization elected to account for the funding as a conditional contribution by applying ASC 958-605, *Not-for-Profit – Revenue Recognition*. The Organization initially recorded the loan as a refundable advance and subsequently recognized contribution revenue in accordance with guidance for conditional contributions, that is, once the measurable performance or other barrier and right of return of the PPP loan no longer existed. The Organization recognized \$3,495,364 as contribution revenue for the year ended December 31, 2021.

Note 8 - Property and Equipment

	2022	2021
Land	\$ 3,875,000	\$ 3,875,000
Land improvements	211,314	211,314
Building	4,025,008	4,025,008
Building improvements	1,014,213	991,126
Office furniture, equipment, and software	2,032,235	1,982,913
Vehicles	799,977	167,018
Construction in progress	74,595	12,375
Gross property and equipment	12,032,342	11,264,754
Less: accumulated depreciation	(4,667,800)	(4,114,661)
Net property and equipment	\$ 7,364,542	\$ 7,150,093

Depreciation expense charged to operations was \$553,140 in 2022 and \$509,753 in 2021.

Note 9 - Investments

Investments consist of the following at December 31, 2022 and 2021:

	2022	2021
Fixed income	\$ 16,192,728	\$ 14,554,830
Equity securities	7,335,508	8,654,005
Mutual funds - equities	2,324,366	3,093,813
Warrants and rights	1,526	467
Total Investments	\$ 25,854,128	\$ 26,303,115

Investments are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least possible that changes in risks in the near term could materially affect account balances and the amounts reported in the accompanying financial statements.

Investment income consisted of the following for the years ended December 31, 2022 and 2021:

	2022	2021
Investment income		
Interest and dividend income, net	\$ 843,774	\$ 549,765
Realized gain (loss)	(11,317)	13,919
Unrealized gain (loss)	(3,108,339)	1,938,962
Investment fees	(41,027)	(41,337)
	\$ (2,316,909)	\$ 2,461,309
Changes in net assets with donor restrictions		
Interest and dividend income, net	\$ (36,515)	\$ 43,413
Realized gain (loss)	495	(3,299)
	\$ (36,020)	\$ 40,114

Note 10 - Fair Value Measurements

The Organization reports certain assets and liabilities at fair value in the financial statements. Fair value is the price that would be received when selling an asset or paid to transfer a liability in an orderly transaction in the principal, or most advantageous, market at the measurement date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique. Inputs used to determine fair value refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability based on the best information available.

A three-tier hierarchy categorizes the inputs as follows:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities that can be accessed at the measurement date.

Level 2 – Inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, and market-corroborated inputs.

Level 3 – Unobservable inputs for the asset or liability. In these situations, inputs are developed using the best information available in the circumstances.

In some cases, the inputs used to measure the fair value of an asset or a liability might be categorized within different levels of the fair value hierarchy. In those cases, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest input level that is significant to the entire measurement. Assessing the significance of a particular input to the entire measurement requires judgment taking into account factors specific to the asset or liability. The categorization of an asset within the hierarchy is based upon the pricing transparency of the asset and does not necessarily correspond to an assessment of the quality, risk or liquidity profile of the asset or liability.

A portion of the investments are classified within Level 1 because they comprise various mutual funds and equities with readily determinable fair values based on daily redemption values. Fixed income securities are valued by the custodians of the securities using pricing models based on credit quality, time to maturity, stated interest rates and market-rate assumptions, and are classified within Level 2. The fair value of the beneficial interest in the charitable trust is determined by using present value techniques and risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the underlying assets and are based on the fair values of the trust investments as reported by the trustee.

The following table presents the balances of the assets measured at fair value on a recurring basis at December 31, 2022

	Fair Value Measurements at Report Date Using			Total
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Investments				
Fixed income	\$ -	\$ 16,192,728	\$ -	\$ 16,192,728
Equity securities	7,335,508	-	-	7,335,508
Mutual funds-equities	2,324,366	-	-	2,324,366
Warrants and rights	1,526	-	-	1,526
	<u>\$ 9,661,400</u>	<u>\$ 16,192,728</u>	<u>\$ -</u>	<u>\$ 25,854,128</u>
Beneficial interest in charitable trust	<u>\$ -</u>	<u>\$ 169,460</u>	<u>\$ -</u>	<u>\$ 169,460</u>

The following table presents the balances of the assets measured at fair value on a recurring basis at December 31, 2021

	Fair Value Measurements at Report Date Using			Total
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Investments				
Fixed income	\$ -	\$ 14,554,830	\$ -	\$ 14,554,830
Equity securities	8,654,005	-	-	8,654,005
Mutual funds-equities	3,093,813	-	-	3,093,813
Publicly traded other	467	-	-	467
	<u>\$ 11,748,285</u>	<u>\$ 14,554,830</u>	<u>\$ -</u>	<u>\$ 26,303,115</u>
Beneficial interest in charitable trust	<u>\$ -</u>	<u>\$ 211,127</u>	<u>\$ -</u>	<u>\$ 211,127</u>

Note 11 - Leases

The Organization leases certain office space for various terms under long-term, non-cancelable operating lease agreements. The leases expire at various dates through 2030 and provide for renewal options ranging from three to five years. The Organization included in the determination of the right-of-use assets and lease liabilities any renewal options when the options are reasonably certain to be exercised. The leases provide for increases in future minimum annual rental payments based on defined increases in the Consumer Price Index, subject to certain minimum or maximum increases. Also, the agreements generally require the Company to pay real estate taxes, insurance, and repairs.

The weighted-average discount rate is based on the discount rate implicit in the lease. If the implicit rate is not readily determinable from the lease, the Organization estimates an applicable incremental borrowing rate. The incremental borrowing rate is estimated using the Organization's applicable borrowing rates and the contractual lease term.

The Organization has elected the short-term lease exemption for all leases with a term of 12 months or less for both existing and ongoing operating leases to not recognize the asset and liability for these leases. Lease payments for short-term leases are recognized on a straight-line basis.

Total lease costs for the year ended December 31, 2022 were as follows:

	2022
Operating lease cost	\$ 838,669

Total lease expense for the year ended December 31, 2021 for all operating leases was \$933,720.

The following table summarizes the supplemental cash flow information for the year ended December 31, 2022:

	2022
Cash paid for amounts included in the measurement of lease liabilities	
Operating cash flows from operating leases	\$ (814,227)

The following summarizes the weighted-average remaining lease term and weight-average discount rate:

	2022
Weighted-average remaining lease term:	
Operating leases	4.26 years
Weighted-average discount rate:	
Operating leases	4.31%

The future minimum lease payments under noncancelable operating leases with terms greater than one year are listed below as of December 31, 2022:

	2022
	Operating
2023	\$ 779,405
2024	543,985
2025	440,690
2026	261,613
2027	103,813
Thereafter	268,388
Total lease payments	2,397,894
Less interest	(200,691)
Present value of lease liabilities	\$ 2,197,203

Future minimum payments determined under the guidance in Topic 840 are listed below as of December 31, 2021:

	2021
	Operating
2022	\$ 798,092
2023	1,440,756
2024	491,372
2025	383,562
2026	219,461
Thereafter	288,641
Total lease payments	3,621,884
Less interest	(306,961)
Present value of lease liabilities	\$ 3,314,923

Note 12 - Line of Credit

The Organization has a bank line of credit for \$4,000,000. The line of credit is secured by the Organization's investment portfolio. Interest is charged on the outstanding balance at the prime rate less 1.75%. The prime rate at December 31, 2022 was 7.5% so the interest rate on the line of credit was 5.75%. There was a balance of \$338,508 and \$0 at December 31, 2022 and 2021, respectively. The line of credit expires July 15, 2025.

The Organization has a second bank line of credit for \$500,000. The line of credit is secured by real property. Interest is charged on the outstanding balance at 2.538% above the LIBOR rate index. There were no outstanding balances at December 31, 2022 and 2021. The line of credit does not have a pre-set maturity date.

Note 13 - Net Assets with Donor Restrictions

Net assets with donor restrictions are restricted for the following purposes or periods:

	2022	2021
Subject to expenditure for specified purpose		
Respite care	\$ 173,108	\$ 126,276
Give me a break	515,027	525,897
Music and memory	27,127	30,721
Endowment earnings	206,455	232,860
	921,717	915,754
Subject to the passage of time		
Beneficial interest in charitable trust	169,460	311,127
Endowments		
Held in perpetuity, the income from which is expendable to support Bruns House	500,000	500,000
	<u>\$ 1,591,177</u>	<u>\$ 1,726,881</u>

During 2022 and 2021, net assets were released from donor restrictions by incurring expenditures satisfying the restricted purposes and the expiration of time restrictions in the amounts of \$146,040 and \$196,557 as detailed below. These amounts are included in net assets released from restrictions in the accompanying financial statements.

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	<u>2022</u>	<u>2021</u>
Satisfaction of purpose restrictions		
Volunteer Program Donations	\$ 4,750	\$ 8,631
Bereavement - General	5,621	8,157
Bruns House general	84,480	89,726
Childrens Program	808	1,777
Education	957	363
Rossmoor Respite Care donation	1,728	3,573
Give me a Break Respite	10,895	32,188
Spiritual Care	204	150
Patient Care	9,912	6,803
Palliative Care	21,295	41,793
Music & Memory	4,255	12
Music Therapist	1,135	3,384
Satisfaction of time restriction	<u>100,000</u>	<u>-</u>
Total	<u>\$ 246,040</u>	<u>\$ 196,557</u>

Note 14 - Endowment

The Organization's endowment (the Endowment) consists of an individual fund, the Bruns House, established by a donor to provide annual funding for the ongoing expenses at Bruns House. The Organization determined the net assets forming the Bruns House Fund is legally restricted as an endowment fund and should therefore be reported as net assets with donor restrictions. The Organization's Board of Directors has interpreted the California Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the date of the donor-restricted endowment funds, unless there are explicit donor stipulations to the contrary. At December 31, 2022 and 2021, there were no such donor stipulations. As a result of this interpretation, the Organization retains in perpetuity (a) the original value of initial and subsequent gift amounts and (b) any accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added.

The following factors are considered in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund.
- The purposes of the Organization and the donor-restricted endowment fund.
- General economic conditions.
- The possible effect of inflation and deflation.
- The expected total return from income and the appreciation of investments.
- Other resources of the Organization.
- The investment policies of the Organization.

As of December 31, 2022 and 2021, the Organization had the following endowment net asset composition by type of fund:

	Without Donor Restrictions	With Donor Restrictions	Total
<u>December 31, 2022</u>			
Donor-restricted endowment funds			
Original donor-restricted gift amounts required to be maintained in perpetuity	\$ -	\$ 500,000	\$ 500,000
Accumulated investment earnings	-	206,455	206,455
	\$ -	\$ 706,455	\$ 706,455

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
<u>December 31, 2021</u>			
Donor-restricted endowment funds			
Original donor-restricted gift amounts required to be maintained in perpetuity	\$ -	\$ 500,000	\$ 500,000
Accumulated investment earnings	-	232,860	232,860
	<u>\$ -</u>	<u>\$ 732,860</u>	<u>\$ 732,860</u>

From time to time, certain donor-restricted endowment funds may have fair values less than the amount required to be maintained by donors or by law (underwater endowments). The Organization has interpreted UPMIFA to permit spending from underwater endowments in accordance with prudent measures required by law. At December 31, 2022 and 2021, there were no underwater endowments.

Investment and Spending Policies

The Organization has adopted an investment policy that attempts to maximize total return consistent with acceptable levels of risk, which applies to all investments, including the endowment fund. Endowment assets are invested in a well-diversified asset mix, which includes equity and debt securities, in order to minimize the risk of large losses. A well-qualified investment advisor maintains the portfolio; efforts are made to control risk and are evaluated regularly to ensure that the risk assumed is commensurate with the given objectives.

Changes in endowment net assets for the years ended December 31, 2022 and 2021 are as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Balance as of December 31, 2020	\$ -	\$ 701,195	\$ 701,195
Investment income	-	31,665	31,665
Balance as of December 31, 2021	-	732,860	732,860
Investment income (loss)	-	(26,405)	(26,405)
Balance as of December 31, 2022	<u>\$ -</u>	<u>\$ 706,455</u>	<u>\$ 706,455</u>

Note 15 - Fund Development

Fund development activities reported individually in accordance with the applicable financial reporting framework in the statements of operations are summarized as follows for the years ended December 31, 2022 and 2021:

<u>December 31, 2022</u>	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Contributions and grants	\$ 1,050,147	\$ 188,023	\$ 1,238,170
Special events, net	176,983	-	176,983
Net assets released from restriction	<u>246,040</u>	<u>(246,040)</u>	<u>-</u>
	<u>\$ 1,473,170</u>	<u>\$ (58,017)</u>	<u>\$ 1,415,153</u>
<u>December 31, 2021</u>	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Contributions and grants	\$ 1,043,265	\$ 302,393	\$ 1,345,658
Special events, net	198,777	-	198,777
Net assets released from restriction	<u>196,557</u>	<u>(196,557)</u>	<u>-</u>
	<u>\$ 1,438,599</u>	<u>\$ 105,836</u>	<u>\$ 1,544,435</u>

Note 16 - Retirement Plan (403b Plan)

The Organization provides a salary deferral plan for all eligible employees. Upon completing 1,000 hours of service, the employer matches up to \$2,000 annually per employee. The employer matching contributions to the plan were \$288,272 and \$347,357 for the years ended December 31, 2022 and 2021, respectively.

Note 17 - Rental Income

Rental income arises from the leasing of a portion of the Organization's Pleasant Hill property to three unrelated parties. The lease terms for the tenants are five years, four years and one year, respectively. Gross rental income for the years ended December 31, 2022 and 2021 was \$63,029 and \$142,155, respectively.

Future minimum rental income under these leases is as follows:

<u>Year Ended December 31,</u>	<u>Amount</u>
2023	<u>\$ 11,872</u>

Note 18 - Concentration of Credit Risk

The Organization grants credit without collateral to its patients, most of whom are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at December 31, 2022 and 2021 was as follows:

	2022	2021
Medicare	82%	74%
Medi-Cal	8%	18%
Other third-party payors	9%	7%
Patients	1%	1%
	100%	100%

Note 19 - Commitments and Contingencies

State and Federal Revenue

The Organization receives patient services revenue from Federal and State funds for specific purposes that are subject to review and audit by the governmental agencies. Although such audits could generate expenditure disallowances under terms of the payments from the Federal and State agencies, in the opinion of management, any required reimbursements will not be material.

Paycheck Protection Program Loan Review

Loans issued under the Paycheck Protection Program (PPP) were subject to good-faith certifications of the necessity of the loan request. Borrowers with loans issued under the program in excess of \$2 million are subject to review by the Small Business Administration (SBA) for compliance with the program requirements. If the SBA determines that a borrower lacked an adequate basis for the loan or did not meet the program requirements, the loan will not be eligible for loan forgiveness and the SBA will seek repayment of the outstanding PPP balance. As such, the potential exists that the Organization may be deemed ineligible for loan forgiveness and would be required to repay the balance.

Litigations, Claims, and Disputes

The Organization is subject to the usual contingencies in the normal course of operations relating to the performance of its tasks under its various programs. Management assesses the ultimate settlement of any litigations, claims, and disputes in process in determining whether a liability should be recorded, or a disclosure should be presented.

The healthcare industry is subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations, specifically those relating to Medicare and Medi-Cal program, can be subject to government review and interpretations, as well as regulatory actions unknown and unasserted at this time. Federal government activity with respect to investigations and allegations concerning possible violations of regulations by healthcare providers could result in the imposition of significant fines and penalties, as well as significant repayments of previously billed and collected revenues from patient services.

Note 20 - Risk Management

The Organization is exposed to various risks of loss in the ordinary course of business as a result of torts, theft of, damage to, or destruction of assets, business interruption, allegations of medical malpractice (professional liability), natural disasters, injury, employee and officer errors and omissions, and employee workers' compensation and medical claims. The Organization purchases commercial insurance coverage against risk of loss due to errors and omissions, fiduciary liability, property damage and theft, pollution liability, and various other insurable risks. Professional liability coverage is on a claims-made basis with limits of \$3 million per occurrence subject to a \$5 million aggregate limit.

The Organization is a member of BETA Healthcare Group (BETA) for workers' compensation coverage. BETA provides coverage to hospitals, healthcare facilities and medical groups. BETA is a risk management joint powers authority (JPA) formed pursuant to the California Government Code. The purpose of the JPA is to purchase and administer workers' compensation insurance for the pooling of self-insured losses and to purchase excess insurance coverage whereby the risk of loss is mitigated by the JPA. BETA purchases workers' compensation insurance under a claims-made policy with limits of \$2 million per occurrence. BETA also purchases excess insurance coverage for claims in excess of \$2 million up to statutory limits.

BETA members are assessed a contribution for each program in which they participate. Members may be subject to additional supplemental assessments if it is determined that the contributions are insufficient. Members may withdraw from BETA with thirty day written advance notice. BETA may cancel a membership for failure to implement loss control or risk management recommendations upon a majority vote of the Board of Directors and with sixty days written notice. Upon withdrawal or cancellation, a member shall not remain subject to additional assessments for the program periods they have participated.

Note 21 - Subsequent Events

Subsequent events have been evaluated through June 30, 2023, the date the financial statements were available to be issued.

11 Cal. Code Reg. Section 999.5(d)(11)(G)

Any requests for opinions to the Internal Revenue Service for rulings attendant to this transaction and any Internal Revenue Service responses thereto.

N/A

11 Cal. Code Reg. Section 999.5(d)(11)(H)

**Pro forma post-transaction balance sheet for the surviving or successor
nonprofit corporation**

The affiliation Transaction will not result in an immediate change to Hospice East Bay's balance sheet. As a result, no pro forma post-Transaction balance sheet has been prepared.

Chapters and Hospice East Bay anticipate that Hospice East Bay's balance sheet will improve incrementally over time as new strategic plans for Hospice East Bay are developed and implemented, and as Hospice East Bay gains new efficiencies in its operations and takes advantage of opportunities as part of the Chapters health system that would not otherwise be available.

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	\$ 33,815,101	\$ 13,667,074
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
Capitalized accounts receivable	6,516,439	7,089,173
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	678,367
Other current assets	19,547,437	10,073,620
Total current assets	121,299,379	74,881,804
Assets limited as to use, net	5,608,228	1,788,383
Pledges receivable, net	3,667,088	1,116,860
Long-term investments	97,711,164	92,165,502
Property and equipment, net	164,962,290	93,968,876
Right-of-use assets	50,822,821	28,233,548
Beneficial interest in net assets of Cornerstone Foundation	7,925,900	6,993,965
Goodwill and intangible assets, net	30,640,428	19,828,490
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	\$ 21,839,476	\$ 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	2,200,643	1,552,300
Annuity obligations, current portion	109,455	159,457
Third-party settlements	1,527,940	1,814,804
Deferred revenue	-	29,507
Total current liabilities	73,276,220	35,196,363
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	148,736,015	86,388,263
Net assets		
Without donor restrictions	318,096,599	221,336,505
Noncontrolling interest in subsidiaries	(3,352,699)	(1,042,752)
Total net assets without donor restrictions	314,743,900	220,293,753
With donor restrictions	23,317,246	14,428,891
Total net assets	338,061,146	234,722,644
	\$ 484,797,161	\$ 321,110,817

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	31,712,713
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	311,958,176	184,746,108
Purchased services	46,859,869	22,342,452
Insurance and other	60,212,040	40,896,730
Durable medical equipment, medical supplies, and drugs	37,107,842	15,885,746
Medical claims expense	33,852,397	24,812,802
Depreciation and amortization	11,551,948	9,183,759
Interest	2,269,158	1,033,889
Affiliation expenses	1,188,526	375,000
Total expenses	<u>505,030,558</u>	<u>279,418,485</u>
Loss from operations	(17,503,465)	(17,052,983)
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)		
	90,229,329	-
Excess of fair value of assets acquired over liabilities assumed in acquisition of Cornerstone Hospice and Palliative Care, Inc (Cornerstone) (See Note 2)		
		63,562,588
(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	-	(344,953)
Investment income (loss)	17,583,507	(18,009,439)
Change in fair value of interest rate swap agreements	(395,585)	1,418,604
Total nonoperating (loss) income	<u>112,260,556</u>	<u>46,737,577</u>
Change in net assets without donor restrictions before other changes	<u>\$ 54,760,094</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)		
	7,183,521	-
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	10,163,137	4,789,658
Investment income (loss)	282,387	(308,509)
Change in beneficial interest in net assets of Cornerstone Foundation	931,935	(5,125,126)
Net assets released from restrictions	<u>(9,642,515)</u>	<u>(5,490,385)</u>
Change in net assets with donor restrictions before other changes	<u>\$ 8,898,443</u>	<u>\$ 6,904,989</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

	2023	2022
Net assets without donor restrictions - January 1	\$ 220,293,753	189,613,422
Change in net assets without donor restrictions before other changes	94,700,094	29,664,503
Member distributions	(3,079,662)	(3,571,622)
Change in non-controlling interest	789,615	2,567,380
	<u>(2,309,947)</u>	<u>696,738</u>
Change in net assets without donor restrictions	<u>92,450,147</u>	<u>30,690,331</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	8,442,832
Change in net assets with donor restrictions before other changes	<u>6,259,445</u>	<u>5,984,969</u>
Net assets with donor restrictions - December 31	<u>\$ 20,688,246</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

	2023	2022
Cash flow from operating activities		
Change in net assets before other changes	\$ 100,848,339	\$ 35,349,567
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)	(49,961,291)
Depreciation and amortization	11,551,348	9,183,739
Change in beneficial interest in net assets of Cornerstone Foundation	(931,935)	9,125,128
Net realized and unrealized (gains) losses on investments	(13,693,311)	21,541,502
Change in fair value of interest rate swap agreements	396,595	(1,318,604)
Loss on sale of a business		344,993
Change in non controlling interest	789,315	2,667,800
Loss (gain) on sale of disposal of assets	3,125,712	(1,122,817)
Change in assets and liabilities		
Patient accounts receivable	(7,848,338)	2,788,137
Capital receivable	3,609,418	(4,395,437)
Due from related party	5,053,973	(4,237,890)
Refuges receivable	(101,357)	(129,808)
Other current assets	(9,473,317)	1,031,581
Other assets	3,666,355	349,74
Reduction in carrying amount of right-of-use assets	9,144,674	4,580,494
Change in operating lease liabilities	(5,980,760)	(3,820,206)
Accounts payable and accrued expenses	(1,923,335)	(1,037,300)
Estimated patient care expenses payable	3,561,048	1,701,964
Third party medical claims	645,985	(328,522)
Accrued employee compensation and related benefits	(1,290,213)	(2,841,087)
Third-party settlements	(502,508)	(472,282)
Deferred revenue	(26,407)	(7,543)
Other liabilities	(18,585)	(425,602)
Net cash from operating activities	<u>10,642,253</u>	<u>18,225,712</u>
Cash flow from investing activities		
Proceeds from sale of property and equipment	590,261	741,089
Purchases of property and equipment	(1,237,640)	(9,399,671)
Proceeds from sales of investments	49,769,335	41,471,463
Purchases of investments	(19,827,732)	(45,821,545)
Proceeds from sale of a business	-	1,600,000
Notes receivable advances converted in consideration (see Notes 2 and 7)	(2,000,000)	(5,060,000)
Net cash from investing activities	<u>36,860,224</u>	<u>(16,442,344)</u>
Cash flow from financing activities		
Payment of dividend distributions	(3,079,562)	(1,571,622)
Proceeds from long-term debt	9,000,000	-
Repayment of long-term debt	(22,356,862)	(5,318,075)
Payment of deferred financing fees	(185,024)	-
Net cash from financing activities	<u>(16,651,448)</u>	<u>(6,869,697)</u>
Net change in cash and cash equivalents	19,881,027	(7,108,330)
Cash and cash equivalents at beginning of year	<u>10,557,074</u>	<u>17,665,404</u>
Cash and cash equivalents at end of year	<u>\$ 30,438,101</u>	<u>\$ 10,557,074</u>
Supplemental disclosure of cash flow information		
Cash paid for interest	\$ 2,269,159	\$ 1,063,889
Leased assets obtained in exchange for new operating lease liabilities	\$ 340,797	\$ 27,136,509
Leased assets obtained during business affiliation	\$ 27,533,946	\$ 5,184,200

See accompanying notes to consolidated financial statements

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

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)

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)

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 (CPCO).

Capital Palliative Care Consultants: CPCO 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 other 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.

Aicare Medical of Florida (Aicare): Aicare provides a full range of medical equipment to hospice patients and those with life limiting conditions. At December 31, 2021, CHS owned 90% of Aicare. CHS acquired the remaining 10% of Aicare in 2022 and subsequently sold the entity to an unrelated party for \$1,800,000. 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 80% 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. GNU owns 60% of ADCE and has been consolidated with GNU 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 \$6,249,000 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)

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)

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 Ailcare, 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)

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)

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)

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)

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)

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)

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)

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)

Capitated Revenue: Capitated contract revenue is recorded as revenue in the month that members are entitled to healthcare services through contracts with ADCF. 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)

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)

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	4,889,452
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	3,348,273
Total assets	<u>118,968,590</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	321,479
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)

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

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	\$ 2,906,979
Patient accounts receivable	11,665,856
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	5,797,494
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 Cornerstone Foundation	12,119,093
Intangibles and Tradenames	1,600,000
Right-of-use assets	6,464,209
Property and equipment	37,553,339
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	460,305
Other current assets	9,396,021	1,717,244
	<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	8,209,953
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	(20,307,432)	(18,424,787)
	<u>\$ 43,623,346</u>	<u>\$ 19,119,599</u>

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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	1,864,123	1,728,286
	<u>10,447,489</u>	<u>5,241,027</u>
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	16,175,034	8,956,981
	<u>109,283,703</u>	<u>101,456,651</u>
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	\$ 3,962,060	\$ 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>

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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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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	267,509,257	99,819,814
Furniture, fixtures, and equipment	74,430,027	50,147,656
Vehicles	2,225,084	281,946
Projects in process	960,430	12,459,483
	311,208,624	178,597,683
Less accumulated depreciation	(146,246,334)	(84,626,805)
	\$ 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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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 \$8,278,000 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		6,182,366
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 expire 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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