Consolidated Financial Statements

2022

Seven Counties Services, Inc.

June 30, 2022 and 2021

Strothman+Co

Consolidated Financial Statements

Seven Counties Services, Inc.

June 30, 2022 and 2021

Strothman and Company
Certified Public Accountants and Advisors
1600 Waterfront Plaza
325 West Main Street
Louisville, KY 40202
502 585 1600

Strothman+Co

Independent Auditors' Report

To the Board of Directors
Seven Counties Services, Inc.
Louisville, Kentucky

Opinion

We have audited the accompanying consolidated financial statements of Seven Counties Services, Inc. and its subsidiary (the "Corporation"), which comprise the consolidated statements of financial position as of June 30, 2022 and 2021, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Corporation as of June 30, 2022 and 2021, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the Corporation and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter - Uncertainty Regarding the Future Outcome of Litigation

As discussed in Note N to the consolidated financial statements, the Corporation is the defendant in a lawsuit regarding participation in the Kentucky Employee Retirement System. The legal matter has been in various stages of litigation since 2013. Management and legal counsel for the Corporation are of the opinion that the legal action is without merit, and they plan to vigorously defend their position. However, it is at least reasonably possible that a negative outcome will occur, although the amount cannot be estimated. Settlement of the legal action is not expected within the next year. Our opinion is not modified with respect to this matter.

Change in Accounting Principle

As discussed in Note B, the Corporation adopted the requirements of Financial Accounting Standards Board, Accounting Standards Update No. 2020-07, *Not-for-Profit Entities* (Topic 958). Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Consolidated Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards ("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, including omissions, 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 the Corporation's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Corporation'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.

Louisville, Kentucky
December 1, 2022

Consolidated Statements of Financial Position

Seven Counties Services, Inc.

	June 30 2022	June 30 2021
Assets		
Current Assets		
Cash and cash equivalents	$ 8,951,421	$ 9,203,138
Investments	6,156,242	4,211,921
Accounts receivable, net	6,881,228	2,556,868
Other receivables	3,580,843	2,813,970
Prepaid expenses and other current assets	1,400,249	1,088,809
Total Current Assets	26,969,983	19,874,706
Property and Equipment, net	8,573,042	8,755,322
Other Assets, net	1,411,473	1,457,500
	$ 36,954,498	$ 30,087,528
Liabilities and Net Assets		
Current Liabilities		
Accounts payable and accrued expenses	$ 6,163,349	$ 3,888,245
Accrued payroll, benefits and taxes	6,990,079	7,261,694
Due to affiliated entities	46,195	30,000
Current maturities of long-term debt	66,459	472,675
Total Current Liabilities	13,266,082	11,652,614
Long-Term Debt, less current maturities	1,016,450	370,202
Other Long-Term Liabilities		1,272,589
Total Liabilities	14,282,532	13,295,405
Net Assets		
Without donor restrictions	20,988,725	15,038,337
With donor restrictions	1,683,241	1,753,786
Total Net Assets	22,671,966	16,792,123
Total Liabilities and Net Assets	$ 36,954,498	$ 30,087,528

See Notes to Consolidated Financial Statements

Consolidated Statements of Activities

Seven Counties Services, Inc.

	Year Ended June 30	
	2022	**2021**
Net Assets Without Donor Restrictions		
Revenues and Support		
Net client service revenue, net	$ 48,906,026	$ 45,015,077
Public support	47,525,211	45,295,954
Rental income	388,992	364,499
In-kind contributions	699,736	680,437
Other operating revenue	1,226,851	966,062
Net assets released from restrictions	213,965	251,235
Total Revenues and Support	98,960,781	92,573,264
Expenses		
Program Services		
Mental health	42,515,722	40,214,954
Developmental disabilities	9,793,491	9,131,285
Substance abuse	13,963,081	13,184,065
Trust and agency	15,940,286	15,065,285
Total Program Services	82,212,580	77,595,589
Support Services		
General and administrative	10,593,696	9,012,634
Fundraising	318,242	170,461
Total Support Services	10,911,938	9,183,095
Total Expenses	93,124,518	86,778,684
Operating Income	5,836,263	5,794,580
Nonoperating Revenues (Expenses)		
Loss on disposal of assets	(891)	(310,059)
Investment income and other	115,016	109,494
Total Nonoperating Revenues (Expenses)	114,125	(200,565)
Change in Net Assets Without Donor Restrictions	5,950,388	5,594,015
Net Assets With Donor Restrictions		
Restricted public support	143,420	32,356
Net assets released from donor restrictions	(213,965)	(251,235)
Change in Net Assets With Donor Restrictions	(70,545)	(218,879)
Change in Net Assets	5,879,843	5,375,136
Net Assets Beginning of Year	16,792,123	11,416,987
Net Assets End of Year	$ 22,671,966	$ 16,792,123

See Notes to Consolidated Financial Statements

Consolidated Statement of Functional Expenses

Seven Counties Services, Inc.

For the Year Ended June 30, 2022

	Mental Health	Developmental Disabilities	Addiction Services	Trust and Agency	Total Program Services	General and Administrative	Fundraising	Total Expenses
Salary and fringe benefits	$ 36,663,716	$ 6,937,577	$ 8,463,718	$ 15,716,863	$ 67,781,874	$ 5,750,923	$ 104,306	$ 73,637,103
Professional fees	415,039	2,233,718	285,932	43,179	2,977,868	983,811	120,573	4,082,252
Facilities	2,178,836	113,261	1,244,906		3,537,003	387,130	12,036	3,936,169
Equipment	420,390	77,523	121,283		619,196	95,580	1,591	716,367
Depreciation	566,750	28,736	217,531		813,017	759,972	2,999	1,575,988
Travel and transportation	247,958	31,225	132,833	54	412,070	21,257	911	434,238
Consumables	335,067	30,235	752,389		1,117,691	63,588	854	1,182,133
Communications	435,074	78,009	173,707	1,290	688,080	39,722	1,007	728,809
Interest	22,590		12,840		35,430			35,430
Computer hardware and software	157,717	9,937	24,566		192,220	1,878,965	18	2,071,203
Miscellaneous	1,072,585	253,270	2,533,376	178,900	4,038,131	612,748	73,947	4,724,826
Total Functional Expenses	$ 42,515,722	$ 9,793,491	$ 13,963,081	$ 15,940,286	$ 82,212,580	$ 10,593,696	$ 318,242	$ 93,124,518

See Notes to Consolidated Financial Statements

Consolidated Statement of Functional Expenses

Seven Counties Services, Inc.

For the Year Ended June 30, 2021

	Mental Health	Developmental Disabilities	Addiction Services	Trust and Agency	Total Program Services	General and Administrative	Fundraising	Total Expenses
Salary and fringe benefits	$ 34,652,215	$ 6,530,763	$ 7,887,751	$ 14,928,469	$ 63,999,198	$ 4,776,625	$ 27,992	$ 68,803,815
Professional fees	388,908	2,048,976	303,795	14,911	2,756,590	1,082,815	114,471	3,953,876
Facilities	2,261,355	91,025	1,852,238		4,204,618	133,302	3,441	4,341,361
Equipment	410,293	76,608	136,504		623,405	56,466	574	680,445
Depreciation	523,483	37,814	217,866		779,163	752,188	3,000	1,534,351
Travel and transportation	149,659	3,517	86,588	414	240,178	12,920	136	253,234
Consumables	350,065	28,120	684,976		1,063,161	67,406	231	1,130,798
Communications	473,629	82,734	166,268	1,328	723,959	68,610	968	793,537
Interest	31,037		3,333		34,370	13,901		48,271
Computer hardware and software	58,326	6,695	25,803		90,824	1,567,343	15	1,658,182
Miscellaneous	915,984	225,033	1,818,943	120,163	3,080,123	481,058	19,633	3,580,814
Total Functional Expenses	$ 40,214,954	$ 9,131,285	$ 13,184,065	$ 15,065,285	$ 77,595,589	$ 9,012,634	$ 170,461	$ 86,778,684

See Notes to Consolidated Financial Statements

Consolidated Statements of Cash Flows

Seven Counties Services, Inc.

	Year Ended June 30	
	2022	**2021**
Operating Activities		
Change in net assets	$ 5,879,843	$ 5,375,136
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Loss on disposal of assets	891	310,059
Depreciation	1,575,988	1,534,351
Investment income and other	115,016	109,494
Changes in operating assets and liabilities		
Accounts receivable, net	(4,324,360)	269,146
Due to affiliated entities	16,195	(940,343)
Other receivables	(766,873)	(910,073)
Prepaid expenses and other current assets	(265,413)	(348,600)
Accounts payable and accrued expenses	2,275,104	(1,766,768)
Accrued payroll, benefits and taxes	(271,615)	950,233
Other long-term liabilities	(1,272,589)	464,092
Net Cash Provided By Operating Activities	2,962,187	5,046,727
Investing Activities		
Purchase of property and equipment	(1,403,197)	(611,310)
Proceeds from the sale of property and equipment	8,598	
Purchases of investments	(2,059,337)	
Net Cash Used In Investing Activities	(3,453,936)	(611,310)
Financing Activities		
Proceeds from long-term debt	731,200	
Principal payments on long-term debt	(491,168)	(759,251)
Net Cash Provided By (Used In) Operating Activities	240,032	(759,251)
(Decrease) Increase in Cash and Cash Equivalents	(251,717)	3,676,166
Cash and Cash Equivalents Beginning of Year	9,203,138	5,526,972
Cash and Cash Equivalents End of Year	$ 8,951,421	$ 9,203,138
Supplemental Cash Flow Information		
Cash paid for interest	$ 34,766	$ 48,310

See Notes to Consolidated Financial Statements

Note A--Description of Business

Seven Counties Services, Inc. and its subsidiary (the "Corporation") is a community mental health-developmental disabilities organization which provides planning, coordination and direct delivery of mental health, substance abuse and developmental disability services. These services are provided at various centers located throughout various counties in the Commonwealth of Kentucky, with the main administrative offices located in Louisville, Kentucky.

Note B--Summary of Significant Accounting Policies

The Corporation follows generally accepted accounting principles outlined in the Financial Accounting Standards Board's ("FASB") *Accounting Standards Codification* ("ASC"). Significant accounting policies are as follows:

Principles of Consolidation--The consolidated financial statements include Seven Counties Services, Inc. and Personnel Best, LLC. Seven Counties Services, Inc. controls and provides all management and support services. All intercompany balances and transactions have been eliminated in consolidation.

Seven Counties Services, Inc. is the sole member of Personnel Best, LLC, a limited liability company. Personnel Best, LLC serves as a pass-through entity to receive benefit payments and process the corresponding payroll to providers for Kentucky Medicaid recipients who receive benefits under the Kentucky Consumer Directed Options ("CDO") program.

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

> Net Assets Without Donor Restrictions--Net assets that are not restricted by donor-imposed restrictions and available to support operations. The only limits on the use of net assets without donor restrictions are the broad limits resulting from the nature of the Corporation, the environment in which it operates, the purposes specified in its corporate documents and its application for tax-exempt status, and any limits resulting from contractual agreements with creditors and others that are entered into in the course of its operations.

> Net Assets With Donor Restrictions--Net assets resulting from contributions and other inflows of net assets whose use by the Corporation is limited by donor-imposed restrictions. These include net assets with donor restrictions, some of which may or will be met either by action of the Corporation and/or passage of time. 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 activities as net assets released from restrictions. These also include net assets with donor restrictions that neither expire by the passage of time nor can be fulfilled or otherwise removed by actions of the Corporation. Net assets with donor restrictions at June 30, 2022 and 2021 represent donor restricted funds designated for various programs offered by the Corporation and contributed rent.

Continued

Note B--Summary of Significant Accounting Policies--Continued

Cash and Cash Equivalents--For purposes of reporting cash flows, the Corporation considers all liquid investments with an original maturity of three months or less to be cash equivalents. The Corporation maintains these deposits with banks. At times, these deposits may exceed federally insured limits. The Corporation believes it is not exposed to any significant credit risk on cash and cash equivalents.

Investments--Investments are reported at fair value, based primarily on market quotes. In the accompanying consolidated statements of activities, cumulative market appreciation on donor restricted funds is classified as with donor restriction in cases where the donor has placed temporary restrictions on the use of the income until the restrictions have been met. Where no donor restrictions are placed on the use of income, the market appreciation and other income is classified as without donor restriction.

Investments include certificates of deposits and cash and cash equivalents. Certificates of deposits (regardless of original maturity) are recorded at fair value in accordance with FASB ASC 820, *Fair Value Measurement*. Interest income is accounted for in accordance with donor restrictions or, in the absence of specific donor restrictions, as without donor restrictions.

Accounts Receivable--The accounts receivable balance represents the unpaid amounts billed to clients and third party payors. Implicit and explicit price concessions (formerly known as contractual adjustments, discounts and an allowance for doubtful accounts) are recorded to report receivables for client care services at net realizable value.

Client accounts receivable are reduced by appropriate implicit price concessions (formerly allowances for doubtful accounts) based on the Corporation's evaluation of its major payor sources of revenue, the aging of the accounts, historical losses, current economic conditions, and other factors unique to its service area and the healthcare industry. Management regularly reviews data about the major payor sources of revenue in evaluating the sufficiency of implicit price concessions. For receivables associated with services provided to clients who have third-party coverage, the Corporation analyzes contractually due amounts and provides explicit price concessions (formerly known as allowance for contractual adjustments) and implicit price concessions (formerly known as provision for bad debts), if necessary. For receivables associated with self-pay payments, which includes both clients without insurance and clients with deductible and copayment balances due for which third party coverage exists for part of the bill, the Corporation records implicit price concessions in the period of service on the basis of its past experience, which indicates that many clients are unable or unwilling to pay the portion of their bill for which they are financially responsible.

Other Receivables--The Corporation has recorded receivables from federal and state agencies related to grants under contract. The Corporation expects full collection of these receivables.

Property and Equipment and Depreciation--Property and equipment are stated at cost. Depreciation is provided over the assets' estimated useful lives using the straight-line method as follows:

Buildings and improvements	10 – 30 years
Furnishings, equipment and vehicles	3 – 10 years

Continued

Note B--Summary of Significant Accounting Policies--Continued

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

Gifts of long-lived assets such as land, buildings or equipment are reported as without donor restrictions, 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 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.

Contributed Rent Receivable--The Corporation has a donated lease with Seven Counties Addictions Recovery Center ("SCARC"), formerly known as Jefferson Alcohol and Drug Abuse Center, from Louisville Metro Government. Future contributed rent under this lease is valued at $1,377,500 and $1,522,500 at June 30, 2022 and 2021, respectively, and is being amortized over the life of the lease which matures December 31, 2031. Contributed rent receivable is included in other assets on the consolidated statements of financial position. Total rent does not include the amortization of the fair market value of the donated lease of SCARC of $145,000 for the years ended June 30, 2022 and 2021.

Net Client Service Revenue--The Corporation recognizes net client service revenues on the accrual basis of accounting in the reporting period in which services are performed based on the current gross charge structure, less implicit and explicit price concessions (adjustments and estimated discounts for contractual allowances), principally for clients covered by Medicare, Medicaid, and managed care and other health plans. Gross client service revenue is recorded in the accounting records using the established rates for the type of service provided to the client. The Corporation recognizes an estimated explicit price concession to reduce gross client charges to the estimated net realizable amount for services rendered based upon previously agreed to rates with a payor. The Corporation utilizes the client billing system to calculate explicit price concessions on a payor by payor basis based on historical collections. The management of the Corporation continually reviews the process to consider and incorporate updates to laws and regulations and the frequent changes in managed care contractual terms that result from contract renegotiations and renewals.

Payors include federal and state agencies, including Medicare and Medicaid, managed care health plans, commercial insurance companies, and employers. These third-party payors provide payments to the Corporation at amounts different from its established rates based on negotiated reimbursement agreements. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and fee schedule payments. Retroactive adjustments under reimbursement agreements with third-party payors are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Continued

Note B--Summary of Significant Accounting Policies--Continued

Given the current regulatory and reimbursement environment, there can be no assurances that adequate reimbursement levels will continue to be available for the services provided by the Corporation. Significant limits on the scope of services reimbursed and on reimbursement rates and fees could have a material adverse effect on the Corporation's liquidity, financial condition, results of operations and cash flows.

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

Charity Care--The Corporation provides care to clients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. The charity care amounts are not reported as net client service revenue as the Corporation does not pursue collection. Amounts for forgone charges related to charity care are approximately $4,322,000 and $2,251,000 for the years ended June 30, 2022 and 2021, respectively.

Of the Corporation's total unrestricted operating expenses pertaining to providing client care, an estimated $2,823,000 and $2,278,000 arose from providing services to charity care clients during the years ended June 30, 2022 and 2021, respectively.

The estimated costs of providing charity care services are based on a calculation which applies a ratio of costs to charges to the gross uncompensated charges associated with providing care to charity clients. The ratio of cost to charges is calculated based on the Corporation's total expenses divided by gross client service revenue.

Public Support--The Corporation receives federal, state, and county grants for providing services in specific program areas. Receipt of these funds is subject to the fulfillment of certain obligations by the Corporation as prescribed by these programs and funds may be subject to repayment upon a determination of noncompliance made by a funding agency.

The Corporation has contracts with the State of Kentucky to provide community mental health services. During 2022 and 2021, the Corporation was paid by the State based upon applicable contractually agreed to stipulations.

The Corporation derives a significant portion of its revenue from third-party payors and federal, state and county funding programs. The receipt of future revenues by the Corporation is subject to among other factors, federal, state, and county policies affecting the health care industry, economic conditions that may include an inability to control expenses in periods of inflation, increased competition, market pressures on premium rates and other conditions which are impossible to predict.

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, if they exist.

Continued

Note B--Summary of Significant Accounting Policies--Continued

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 statements of activities as net assets released from restriction.

If a restriction is fulfilled in the same accounting period in which the contribution is received, the contribution is reported as support without donor restrictions.

In-kind contributions are recorded based on their estimated fair value at the date of donation.

Advertising Costs--The Corporation uses advertising to promote its programs and services among the general public. The advertising costs are expensed as incurred. Advertising costs for the Corporation totaled approximately $221,000 and $188,000 for 2022 and 2021, respectively.

Income Taxes--The Corporation and its subsidiary are organized as not-for-profit corporations under Section 501(c)(3) of the United States Internal Revenue Code ("IRC"). The Corporation and its subsidiary had no unrelated business income for the fiscal years ended June 30, 2022 and 2021. Personnel Best, LLC is a disregarded entity for tax purposes, and its activity is included with Seven Counties Services, Inc. for tax reporting.

Accounting principles generally accepted in the United States of America (“GAAP”) requires management to evaluate tax positions taken and recognize a tax liability if it is more likely than not that an uncertain tax position would not be sustained upon examination by various federal and state taxing authorities. Management has analyzed the tax positions taken and has concluded that as of June 30, 2022 and 2021, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the accompanying consolidated financial statements. The Corporation is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

Performance Indicator and Operating Indicator--The consolidated statements of activities include a performance indicator, excess of expenses over revenues for June 30, 2022 and 2021. Changes in net assets without restrictions which would be excluded from the performance indicator, consistent with industry practice, include net assets released for long-lived assets and contributions to supported entities. The consolidated statements of activities also include an operating indicator, operating income (loss) for June 30, 2022 and 2021. Certain non-operating items are excluded from the operating indicator, including investment income, contributions from donors and related parties, other non-operating income and gains (losses) on disposal of equipment.

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

Continued

Note B--Summary of Significant Accounting Policies--Continued

Functional Expenses--The consolidated financial statements report certain categories of expenses that are attributable to one or more program or supporting functions of the Corporation. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include salaries and fringe benefits, professional fees, facilities, equipment, depreciation, travel and transportation, supplies, communications, interest, and miscellaneous expenses. Other than depreciation and amortization, these costs are allocated based on management's estimates of time and effort involved for each program or supporting function. Depreciation expense is allocated based on management's assessment of administrative square footage used as a percent of the total facility's square footage.

New Accounting Standard--The Corporation adopted the requirements of the FASB issued Accounting Standards Update ("ASU") 2020-07, *Not-for-Profit Entities* (Topic 958). This new ASU is intended to increase transparency for contributed nonfinancial assets through enhancements to presentation and disclosure. Nonfinancial assets include property and equipment, use of property and equipment or utilities, materials and supplies, intangible assets, services and unconditional promises of those assets. The Corporation has adopted this guidance in the ASU as of July 1, 2021; however, adoption did not materially impact the financial statements. (See Note M)

Subsequent Events--The Corporation has evaluated events and transactions that occurred through December 1, 2022, which is the date that the consolidated financial statements were available to be issued, for possible recognition or disclosure in the consolidated financial statements.

Note C--Other Receivables

Other receivables consist of the following:

	June 30	
	2022	**2021**
U.S. Department of Health and Human Services	$ 1,134,913	$ 1,348,091
Metro Louisville	603,544	264,711
Kentucky Department of Behavioral Health	340,850	336,692
University of Louisville	24,982	18,875
Other agencies	1,476,554	845,601
	$ 3,580,843	$ 2,813,970

Note D--Investments

Accounting standards establish a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: *Level 1* inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority, and *Level 3* inputs have the lowest priority. The Corporation uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, the Corporation measures fair value using *Level 1* inputs because they generally provide the most reliable evidence of fair value. *Level 3* inputs were only used when *Level 1* or *Level 2* inputs were not available.

Level 1 Fair Value Measurements - The fair values of cash equivalents and U.S. Government securities are based on quoted market prices.

Level 2 Fair Value Measurements - The fair values of certificates of deposits are based upon the stated interest rates compared to current market interest rates.

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

Investment securities are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in risk in the near term would result in material changes in the fair value of investments and net assets of the Corporation.

Continued

Note D--Investments--Continued

The investments of the Corporation are reported at fair value in the accompanying consolidated statements of financial position. The following table presents the fair value of investments at June 30, 2022 and 2021:

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Unobservable Inputs (Level 2)
June 30, 2022			
U. S. Government securities	$ 5,337,000	$ 5,337,000	
Certificate of deposit	244,000		$ 244,000
Cash equivalents	375,000	375,000	
Total Assets in Fair Value Hierarchy	5,956,000	$ 5,712,000	$ 244,000
Beneficial interests held by outside foundations	200,000		
Total Investments	$ 6,156,000		
June 30, 2021			
U. S. Government securities	$ 3,145,000	$ 3,145,000	
Cash equivalents	850,000	850,000	
Total Assets in Fair Value Hierarchy	3,995,000	$ 3,995,000	$
Beneficial interests held by outside foundations	217,000		
Total Investments	$ 4,212,000		

Continued

Note D--Investments--Continued

Investment income and other includes the following:

	June 30 2022	June 30 2021
Interest income	$ 106,067	$ 60,076
Dividend income	55,944	49,418
Change in investment in market value	(46,995)	
	$ 115,016	$ 109,494

Note E--Concentrations of Credit Risk

The mix of the accounts receivable and net client service revenue is as follows:

	Receivables		Revenue	
	2022	2021	2022	2021
Medicare	5%	4%	2%	3%
Medicaid	89%	74%	92%	90%
Self-pay	2%	7%	2%	2%
Other third-party payors	4%	15%	4%	5%
	100%	100%	100%	100%

Note F--Property and Equipment

Property and equipment consist of the following:

	June 30	
	2022	2021
Land	$ 1,500,900	$ 1,434,900
Buildings and improvements	12,495,204	11,470,172
Furnishings, equipment and vehicles	8,117,130	7,829,670
	22,113,234	20,734,742
Less accumulated depreciation	13,592,391	12,019,420
	8,520,843	8,715,322
Construction in progress	52,199	40,000
	$ 8,573,042	$ 8,755,322

Note G--Liquidity and Availability

The Corporation regularly monitors liquidity required to meet its operating needs and other commitments, while also striving to maximize the investment of its available funds. As part of the Corporation's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due.

Financial assets available for general expenditures within one year of the consolidated statements of financial position at June 30, 2022 and 2021 are as follows:

	June 30	
	2022	2021
Cash and cash equivalents	$ 8,928,857	$ 9,182,281
Investments	5,956,481	3,994,550
Accounts receivable, net	6,881,228	2,556,868
	$ 21,766,566	$ 15,733,699

None of the above assets are subject to donor or other restrictions. Investments excludes approximately $200,000 and $217,000 as of June 30, 2022 and 2021, respectively, related to investments held in outside foundations. Other receivables exclude approximately $3,477,000 and $2,835,000, as of June 30, 2022 and 2021, respectively, which are related to certain grants received by the Corporation. The Corporation also has a $2,000,000 line of credit that could be utilized for its liquidity needs (see Note H).

Note H--Long-Term Debt

Long-term debt consists of the following:

	June 30	
	2022	2021
Note payable to landlord in monthly installments of $4,494 including interest at 7.00% through July 1, 2029	$ 297,770	$ 329,634
Note payable to Republic Bank in monthly installments of $4,067 including interest at 2.99% through November 1, 2031	715,485	
Other note payable	72,433	77,180
Note payable repaid during the current year		436,063
	1,085,688	842,877
Less unamortized loan costs, net of accumulated amortization of $1,582 (2022)	2,779	
	1,082,909	842,877
Less current maturities	66,459	472,675
Long-Term Debt, less current maturities	$ 1,016,450	$ 370,202

In June 2014, the Corporation entered into a debt agreement with the landlord of a leased facility. The debt acquired was for $500,000 used to finance the construction of leasehold improvements with the debt being repaid to the landlord over the life of the lease. This note payable is unsecured.

In November 2021, the Corporation entered into a debt agreement with Republic Bank and Trust Company for $731,200. The loan is secured by certain real and personal property.

Continued

Note H--Long-Term Debt--Continued

Aggregate annual maturities of long-term debt as of June 30, 2022 are as follows:

Year Ending June 30		
2023	$	66,459
2024		69,766
2025		73,389
2026		77,176
2027		81,196
Thereafter		717,702
	$	1,085,688

The Corporation has a revolving line of credit in the amount of $2,000,000, secured by substantially all assets. There were no borrowings outstanding as of June 30, 2022 or 2021. In November 2021, the maturity date was extended to November 17, 2024.

Note I--Net Assets With Donor Restrictions

Net assets with donor restrictions consist of the following:

	June 30	
	2022	2021
Specified Period of Time:		
Contributed rent	$ 1,377,500	$ 1,522,500
Other	103,397	30,649
	1,480,897	1,553,149
Specified Purpose or Use:		
Shepherd's Garden Apartments	179,780	179,780
Reserve cash funds	22,564	20,857
	202,344	200,637
	$ 1,683,241	$ 1,753,786

Note J--Public Support

The composition of public support is set forth in the following table:

	For the Year Ended June 30	
	2022	2021
Kentucky Department for Behavioral Health, Developmental and Intellectual Disabilities	$ 19,001,656	$ 16,765,846
Louisville Metro Government	1,348,741	778,309
Other state funds	23,158,716	22,896,592
Federal funds	3,263,189	3,973,781
Other public support	752,909	881,426
	$ 47,525,211	$ 45,295,954

Note K--Defined Contribution Plan

The Corporation has a 403(b) defined contribution plan (the "Plan"). Contributions are made to employees who meet the eligibility requirements. Effective January 1, 2019, the Corporation matches up to 3% of the participating employees' compensation. Employer contributions to the Plan were approximately 1,104,000 and $1,129,000 for 2022 and 2021, respectively.

Note L--Affiliated Entities and Related Party Transactions

The Corporation entered into a management services agreement (the "Agreement") with Uspiritus, Inc., a related nonprofit corporation, effective July 1, 2018. The Corporation receives a management fee of $500 each month which is included in other operating revenue on the consolidated statements of activities. At June 30, 2022, there was approximately $46,000 due to the nonprofit. There were no amounts due from or to this nonprofit corporation at June 30, 2021. The Corporation is reimbursed for direct expense incurred related to salaries and benefits per the Agreement. These expenses and reimbursements are reported at net on the consolidated statements of activities.

At June 30, 2022, $98,973 due from Uspiritus which is included in other assets, net on the consolidated statements of financial position.

Note M--In-Kind Contributions

In-kind contributions consisted of the following:

	December 31		Usage
	2021	2020	
Rent	$ 547,452	$ 519,134	Mental Health, Development Disabilities, Addiction Services, Trust and Agency
Miscellaneous Expense	152,284	161,303	Mental Health, Development Disabilities, Addiction Services, Trust and Agency
	$ 699,736	$ 680,437	

In-kind contributions were valued using estimated average U.S. prices of identical or similar products or services using pricing data of similar products or services under a 'like-kind' methodology, considering the utility of the services and goods at the time of the contribution. No in-kind contributions were restricted. The Corporation does not sell donated in-kind gifts and only uses donated services and goods for its own program or supporting service activities.

Note N--Commitments and Contingencies

Operating Leases

The Corporation has several non-cancelable operating leases for facilities and equipment through 2029. Total rent expense was approximately $2,944,000 and $2,787,000 for the years ended June 30, 2022 and 2021, respectively, which does not include the fair market value of the donated lease of SCARC from Louisville Metro Government of $525,096 and $519,133 for the years ended June 30, 2022 and 2021, respectively.

A summary of approximate future minimum payments under these leases as of June 30, 2022 is as follows:

Year Ending June 30	
2023	$ 1,870,000
2024	1,360,000
2025	718,000
2026	697,000
2027	686,000
Thereafter	2,080,000
	$ 7,411,000

Continued

Note N--Commitments and Contingencies--Continued

Insurance

The Corporation participates in a multi-provider insurance program which provides professional and general liability insurance to cover medical malpractice claims. Insurance coverages are $1,000,000 individually and $3,000,000 in the aggregate annually. There are known incidents that may result in the assertion of additional claims, as well as claims from unknown incidents that may be asserted arising from services provided to clients.

The Corporation is self-insured for certain costs related to employee health, dental and accident benefit programs. Expenses resulting from claims experience are recorded as incurred including an estimate of claims incurred but not reported. The accrued liability for such covered medical claims was approximately $404,000 and $335,000 at June 30, 2022 and 2021, respectively, and is included in accrued payroll, benefits and taxes in the consolidated statements of financial position. The Corporation has purchased insurance, which limits its exposure on a per individual basis to $200,000 annually and no annual aggregate.

Litigation

The Corporation is involved in certain litigation arising in the ordinary course of business and has made provisions for any known estimable settlements. The Corporation is also involved in other litigation for which the outcome is unknown. After consultation with legal counsel, it is management's opinion that these matters will be resolved without material adverse effect on the Corporation's financial position, results of operations, or cash flows.

Litigation - Kentucky Employee Retirement System

On April 4, 2013, the Corporation filed a petition for relief under Chapter 11 of the federal bankruptcy laws in the United States Bankruptcy Court and filed a motion to terminate participation in Kentucky Employee Retirement System ("KERS"). The Corporation's liability to KERS, which was in existence prior to filing for bankruptcy under Chapter 11 was stayed while the Corporation continued business operations.

In May 2014, the Court ruled that the Corporation was neither a state entity nor a state instrumentality and thus had legal standing to seek relief under Chapter 11 and withdraw from KERS. The Corporation officially emerged from bankruptcy in February 2015.

Various motions were filed related to the April 4, 2013 filing, and the court ruled, following an evidentiary hearing, that KERS was not entitled to injunctive relief to compel the Corporation to continue making reports and employer and employee contributions into the KERS plan. KERS appealed the court's ruling allowing relief under Chapter 11 to the United States Sixth Circuit Court of Appeals.

Continued

Note N--Commitments and Contingencies--Continued

Following briefing and argument, the Court of Appeals affirmed that the Corporation was eligible to seek relief under Chapter 11 of the Bankruptcy Code. It certified to the Kentucky Supreme Court the question of whether the Corporation's participation in, and contributions to, KERS were based on a statutory obligation. On August 29, 2019, the Kentucky Supreme Court issued an opinion stating that the Corporation's participation in KERS was statutory in nature.

The case returned to the United States Sixth Circuit Court of Appeals, which asked for supplemental briefing on the effect of the Kentucky Supreme Court's decision on KERS's pending appeal and the Corporation's pending cross-appeal. On July 20, 2020, the Sixth Circuit issued a ruling that the Corporation's relationship with KERS was statutory in nature. The case has been remanded back to the District Court for further proceedings. It is anticipated that the District Court will further remand the case to Bankruptcy Court.

The United States Sixth Circuit Court of Appeals supplemented its ruling on the Corporation's relationship with KERS being statutory in nature to include that the Corporation may be liable to KERS for pension contributions accruing during the bankruptcy proceedings, which are estimated to be approximately $21 million. In March 2022, KERS appealed to the Federal Bankruptcy Appellate Panel that this amount be paid by the Corporation.

The Corporation has and continues to take the position that it is no longer a participant in KERS and that it has no unpaid obligations to KERS. The Corporation also believes it has meritorious claims and arguments to support this position. However, at this time, the outcome of this litigation cannot be determined.

Health Care Industry

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

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

Continued

Note N--Commitments and Contingencies--Continued

COVID-19 Pandemic

In March 2020, the World Health Organization declared the outbreak of Coronavirus (“COVID-19”) a pandemic. During March 2020, the global pandemic began to affect the Corporation’s facilities, employees, clients, communities, business operations and financial performance, as well as the global economy and financial markets. The Corporation is committed to protecting the health of our communities and has been responding to the evolving COVID-19 situation while taking steps to provide quality care and protect the health and safety of clients and employees. All of the Corporation’s facilities are closely following infectious disease protocols, as well as recommendations by the Centers for Disease Control and Prevention (“CDC”), the National Health Service (“NHS”) and local health officials. The Corporation has taken steps to secure its supply chain, expanded telehealth capabilities and implemented emergency planning in directly impacted markets. Nevertheless, COVID-19 is impacting the Corporation’s business and may have an impact on its financial results that the Corporation is not currently able to quantify. Continuing disruptions to the Corporation’s business as a result of the COVID-19 pandemic could have an effect on its results of operations, financial condition, and cash flows.

As part of the Coronavirus Aid, Relief and Economic Security Act (the “CARES Act”), the U.S. government offered relief funding to eligible healthcare providers.

For the year ended June 30, 2021, the Corporation received approximately $1,702,000 in stimulus funds (Provider Relief Funds), which are recorded within public support revenue in the consolidated statements of activities. For the year ended June 30, 2022, the Corporation received approximately $572,000 in stimulus funds (Provider Relief Funds), which are recorded within public support revenue in the consolidated statements of activities.

As part of the CARES Act, the U.S. government announced it would allow employers to defer the deposit and payment of the employer's share of Social Security taxes for the period from March 27, 2020 through December 31, 2020. The deferred payments are due in two installments with 50% due on or by December 31, 2021 and the remaining 50% being due on or by December 31, 2022. The Corporation’s remaining installment of approximately $1,273,000 of Social Security taxes as of June 30, 2022, is recorded in accrued, payroll, benefits and taxes on the consolidated statements of financial position. The Corporation deferred approximately $2,545,000 of Social Security taxes as of June 30, 2021 of which $1,273,000 is reflected in other long-term liabilities in the accompanying consolidated statements of financial position.

Note O--Future Accounting Standards

On February 25, 2016, the FASB issued ASU No. 2016-02, *Leases* (Topic 842). This new standard, which the Corporation is not required to adopt until its year ending June 30, 2023, is intended to improve financial reporting about leasing transactions by requiring entities that lease assets to recognize on their consolidated statement of financial position the assets and liabilities for the rights and obligations creased by those leases, and to provide additional disclosures regarding the leases. Leases with terms (as defined in the ASU) of twelve months or less are not required to be reflected on a corporation’s statement of financial position.

The Corporation is presently evaluating the effect that this ASU will have on its future consolidated financial statements, including related disclosures.