



OAKLAWN PSYCHIATRIC CENTER, INC. AND AFFILIATES

CONSOLIDATED FINANCIAL STATEMENTS

AND

SUPPLEMENTARY INFORMATION

JUNE 30, 2023 AND 2022

CPAs / ADVISORS



OAKLAWN PSYCHIATRIC CENTER, INC. AND AFFILIATES

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REPORT OF INDEPENDENT AUDITORS

Board of Directors
Oaklawn Psychiatric Center, Inc. and Affiliates
Goshen, Indiana

Report on the Audit of Consolidated Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of Oaklawn Psychiatric Center, Inc. and Affiliates (OPC and Affiliates), not-for-profit organizations, which comprise the consolidated statements of financial position as of June 30, 2023 and 2022, and the related consolidated statements of operations and changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, based on our audits and the reports of other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of OPC and Affiliates as of June 30, 2023 and 2022, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

We did not audit the financial statements of Oaklawn Apartments, Inc., Simadon Corporation and Madison Residential Services, Inc., wholly-owned affiliates, whose statements reflect total assets of approximately \$1,805,000 and \$1,818,000 as of June 30, 2023 and 2022, respectively, and total revenues of \$543,000 and \$535,000, respectively, for the years ended. Those statements were audited by other auditors, whose reports have been furnished to us, and in our opinion, insofar as it relates to the amounts included for Oaklawn Apartments, Inc., Simadon Corporation and Madison Residential Services, Inc., is based solely on the reports of the other auditors.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and *Uniform Compliance Guidelines for Examination of Entities Receiving Financial Assistance from Governmental Sources*, issued by the Indiana State Board of Accounts. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of OPC 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.

Change in Accounting Principle

As discussed in Note 2 to the consolidated financial statements, OPC and Affiliates adopted Financial Accounting Standards Board Accounting Standards Update No. 2016-02, *Leases (Topic 842)*. 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 OPC and Affiliates' ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

Auditor's 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 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 generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgement 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 OPC 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.

Board of Directors
Oaklawn Psychiatric Center, Inc. and Affiliates
Goshen, Indiana

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

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information on pages 35 through 38 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information, insofar as it relates to Oaklawn Apartments, Inc., Simadon Corporation and Madison Residential Services, Inc., is based on the reports of the other auditors, is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated, October 23, 2023, on our consideration of OPC and Affiliates' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of OPC and Affiliates' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering OPC and Affiliates' internal control over financial reporting and compliance.

Blue & Co., LLC

Indianapolis, Indiana
October 23, 2023

OAKLAWN PSYCHIATRIC CENTER, INC. AND AFFILIATES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION JUNE 30, 2023 AND 2022

ASSETS		
	2023	2022
Current assets		
Cash	\$ 14,691,504	\$ 12,741,098
Patient receivables	2,755,067	2,581,834
Other receivables	6,374,971	6,383,277
Prepaid expenses and other current assets	854,249	841,824
Total current assets	24,675,791	22,548,033
Property and equipment, net	26,826,125	15,618,845
Property and equipment held for sale	300,000	300,000
Right-of-use assets under operating leases, net	219,280	
Investments		
Undesignated	16,654,499	16,329,905
Designated	911,969	1,791,608
Donor restricted	2,291,092	2,182,994
Beneficial interest - funds held by community foundations	551,305	608,508
Total investments	20,408,865	20,913,015
Derivative asset	170,108	
Total assets	\$ 72,600,169	\$ 59,379,893
LIABILITIES AND NET ASSETS		
Current liabilities		
Current portion of long-term debt	\$ 937,218	\$ 678,056
Current portion of operating lease liabilities	166,507	
Accounts payable and accrued expenses	3,578,150	2,878,898
Refundable advances	3,358,786	510,161
Estimated third-party settlements	1,699,893	1,574,768
Accrued wages and related liabilities	3,397,747	4,323,398
Total current liabilities	13,138,301	9,965,281
Long-term debt, net of current portion	14,240,317	6,566,347
Operating lease liabilities, net of current portion	52,773	
Deferred revenue	1,035,834	795,657
Derivative liability		19,977
Total liabilities	28,467,225	17,347,262
Net assets		
Without donor restrictions		
Undesignated	40,295,082	37,317,962
Designated	911,969	1,791,608
Total without donor restrictions	41,207,051	39,109,570
With donor restrictions	2,925,893	2,923,061
Total net assets	44,132,944	42,032,631
Total liabilities and net assets	\$ 72,600,169	\$ 59,379,893

See accompanying notes to consolidated financial statements.

OAKLAWN PSYCHIATRIC CENTER, INC. AND AFFILIATES

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS YEARS ENDED JUNE 30, 2023 AND 2022

	2023	2022
Revenues		
Patient service revenue	\$ 37,078,434	\$ 38,810,201
Public support	20,867,129	21,465,934
Other operating revenue	1,605,681	1,251,295
Total revenues	<u>59,551,244</u>	<u>61,527,430</u>
Expenses		
Salaries and wages	35,935,362	36,253,928
Employee benefits	7,561,488	8,451,283
Occupancy	3,362,867	3,430,253
Supplies and other	4,186,700	3,813,649
Purchased services	5,060,846	4,757,327
Depreciation	887,920	843,093
HAF and HIP programs	1,768,502	1,602,430
Interest	269,199	284,782
Total expenses	<u>59,032,884</u>	<u>59,436,745</u>
Operating income	<u>518,360</u>	<u>2,090,685</u>
Nonoperating revenues (expenses)		
Gain on disposal of property and equipment		984
Contributions	391,742	383,154
Investment return, net	639,769	(596,419)
Change in beneficial interest - funds held by community foundations	(10,663)	11,342
Unrealized gain on derivative	190,085	504,477
Other nonoperating expenses, net	(264,877)	(186,912)
Total nonoperating revenues (expenses)	<u>946,056</u>	<u>116,626</u>
Excess of revenues over expenses	1,464,416	2,207,311
Other changes in net assets without donor restrictions		
Net assets released from restriction	633,065	669,928
Change in net assets without donor restrictions	<u>2,097,481</u>	<u>2,877,239</u>
Changes in net assets with donor restrictions		
Net assets released from restriction	(633,065)	(669,928)
Investment return, net	125,735	(261,012)
Contributions	556,702	717,166
Change in beneficial interest - funds held by community foundations	(46,540)	22,439
Change in net assets with donor restrictions	<u>2,832</u>	<u>(191,335)</u>
Change in net assets	2,100,313	2,685,904
Net assets		
Beginning of year	42,032,631	39,346,727
End of year	<u>\$ 44,132,944</u>	<u>\$ 42,032,631</u>

See accompanying notes to consolidated financial statements.

OAKLAWN PSYCHIATRIC CENTER, INC. AND AFFILIATES

CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED JUNE 30, 2023 AND 2022

	2023	2022
Operating activities		
Change in net assets	\$ 2,100,313	\$ 2,685,904
Adjustments to reconcile changes in net assets to net cash flows from operating activities		
Depreciation	887,920	843,093
Amortization of debt issuance costs	7,335	7,334
Realized and unrealized (gain) loss on investments	(91,980)	1,287,920
Change in beneficial interest - funds held by community foundations	57,203	(33,781)
Unrealized gain on derivative	(190,085)	(504,477)
Gain on disposal of property and equipment		(984)
Changes in operating assets and liabilities		
Patient receivables	(173,233)	116,951
Other receivables	8,306	(372,758)
Prepaid expenses and other current assets	(12,425)	(178,225)
Right-of-use assets under operating leases, net	(219,280)	
Accounts payable and accrued expenses	699,252	576,469
Refundable advances	2,848,625	510,161
Estimated third-party settlements	125,125	94,272
Accrued wages and related liabilities	(925,651)	1,049,353
Deferred revenue	(30,192)	(29,191)
Operating lease liabilities	219,280	
Net cash flows from operating activities	5,310,513	6,052,041
Investing activities		
Purchase of property and equipment	(11,824,831)	(5,446,812)
Proceeds from disposal of property and equipment		984
Purchase of investments	(2,891,419)	(14,265,664)
Proceeds from sale of investments	3,430,346	8,224,320
Net cash flows from investing activities	(11,285,904)	(11,487,172)
Financing activities		
Proceeds from long-term debt	9,642,406	50,350
Payments on long-term debt	(1,716,609)	(800,321)
Net cash flows from financing activities	7,925,797	(749,971)
Net change in cash	1,950,406	(6,185,102)
Cash		
Beginning of year	12,741,098	18,926,200
End of year	\$ 14,691,504	\$ 12,741,098
Supplemental disclosures of cash flows information		
Cash paid for interest	\$ 262,661	\$ 279,336
Property and equipment acquired through liabilities	\$ 270,369	

See accompanying notes to consolidated financial statements.

OAKLAWN PSYCHIATRIC CENTER, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2023 AND 2022

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Oaklawn Psychiatric Center, Inc. (OPC), an Indiana not-for-profit entity founded in 1962, is a community mental health center and psychiatric hospital that serves the residents of Elkhart, St. Joseph and surrounding counties in the State of Indiana. OPC carries the distinction of being the only faith-based community mental health center in the State. OPC provides mental health and substance abuse services through a continuum of care including inpatient, child and adolescent residential, adult group homes, case management, skills training, crisis interventions, outpatient counseling, substance abuse programs and consultative services. OPC carries out its mission on four campuses located in Elkhart and St Joseph counties, through school, home and community-based care and in partnership with a variety of other community providers. OPC is committed to enhancing the quality of life for its clients by creating systems of care for those in need and adopts a philosophy of recovery as we work with people "on the journey toward health and wholeness." OPC served approximately 26,700 individuals in 2023 through inpatient and outpatient programs, as well as community partnerships. Furthermore, OPC trained 9,000 community members and professionals to extend care throughout its' service area in 2023.

Principles of Consolidation

The consolidated financial statements include the accounts of OPC, Oaklawn Community Mental Health Center (OCMHC), Oaklawn Foundation for Mental Health, Inc. (the Foundation), as well as five Housing and Urban Development (HUD) projects. The following HUD projects were created through HUD Capital Advance Programs for purposes of providing housing for low-income eligible mental health clients:

- Oaklawn Apartments, Inc.
- Simadon Corporation
- Madison Residential Services, Inc.
- Oakland Estates Apartments, Inc.
- Riverside Corporation

OCMHC is an affiliated entity as the officers and directors of OPC serve in the same capacity for OCMHC and all operations are conducted by OPC. However, OCMHC is a dormant organization and has no continuing business activities. The Foundation and the HUD projects are wholly owned affiliates of OPC. Therefore, the financial results of the Foundation and HUD projects are included within OPC's consolidated financial statements. Collectively, these entities are referred to as OPC and Affiliates. All material intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of consolidated 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 and disclosure of contingent assets and liabilities at the date of the consolidated financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Areas where significant estimates that are sensitive to change in the near term are used in the accompanying consolidated financial statements include estimated third-party settlements and contractual adjustments, self-funded medical claims incurred but unpaid, and derivative asset/liability. Actual results could differ from those estimates.

OAKLAWN PSYCHIATRIC CENTER, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2023 AND 2022

Cash

OPC and Affiliates maintain cash in bank deposits accounts, which, at times may exceed federally insured limits. OPC and Affiliates have not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash.

Patient Receivables

Patient receivables are recorded at net realizable value based on certain assumptions determined by each payor. For third-party payors including Medicare, Medicaid, commercial and managed care, the net realizable value is based on the estimated contractual reimbursement percentage, which is based on current contract prices or historical paid claims data by payor. For self-pay accounts receivable, which includes patients who are uninsured and the patient responsibility portion for patients with insurance, the net realizable value is determined using estimates of historical collection experience without regard to aging category. These estimates are adjusted for estimated conversions of patient responsibility portions, expected recoveries and any anticipated changes in trends. Patient receivables approximated \$2,755,000, \$2,582,000 and \$2,699,000 as of June 30, 2023 and 2022 and July 1, 2021, respectively.

Patient receivables can be impacted by the effectiveness of OPC's collection efforts. Additionally, significant changes in payor mix, business office operations, economic conditions or trends in federal and state governmental healthcare coverage could affect the net realizable value of patient receivables. OPC also continually reviews the net realizable value of patient receivables by monitoring historical cash collections as a percentage of trailing net patient service revenue, as well as by analyzing current period net patient service revenue and admissions by payor classification, aged patient receivables by payor, days revenue outstanding, the composition of self-pay receivables between pure self-pay patients and the patient responsibility portion of third-party insured receivables.

Final settlements for some payors and programs are subject to adjustment based on administrative review and audit by third parties. As a result of these final settlements, OPC has recorded amounts due for estimated third-party settlements on the consolidated statements of financial positions.

Patient Service Revenue

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

Performance obligations are determined based on the nature of the services provided by OPC. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected (or actual) charges. OPC 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 inpatient care services or patients receiving services in outpatient centers or other locations.

OAKLAWN PSYCHIATRIC CENTER, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2023 AND 2022

OPC measures the performance obligation from admission into OPC, or the commencement of an outpatient service, to the point when it is no longer required to provide services to that patient, which is generally at the time of discharge or completion of the outpatient services. The method of reimbursement for OPC is fee for service. The timing of revenue and recognition for healthcare services is transferred over time.

Because all of its performance obligations relate to contracts with a duration of less than one year, OPC has elected to apply the optional exemption provided in the Financial Accounting Standards Board's (FASB) Accounting Standards Codification (ASC) 606-10-50-14a and, therefore, 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 unsatisfied performance obligations referred to previously are primarily related to inpatient care services at the end of the reporting period. The performance obligations for these contracts are generally completed when the patients are discharged, which generally occurs within days or weeks of the end of the reporting period.

OPC 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 OPC's policy, or implicit price concessions provided to uninsured patients. OPC determines its estimates of contractual adjustments and discounts based on contractual agreements, its discount policies, and historical experience. OPC determines its estimate of implicit price concessions based on its historical collection experience with this class of patients.

Agreements with third-party payors provide for payments at amounts less than established charges. A summary of the payment arrangements with major third-party payors follows:

- Medicare - Certain inpatient care services are paid at prospectively determined rates per discharge based on clinical, diagnostic, and other factors. Certain services are paid based on cost reimbursement methodologies subject to certain limits. Outpatient services are paid using prospectively determined rates.
- Medicaid and Medicaid Rehabilitation Option (MRO) - Reimbursements for Medicaid services are generally paid at prospectively determined rates per discharge, per occasion of service, or per covered member.
- Department of Child Services, third party contracts and other - Payment agreements with the Department of Child Services, certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations provide for payment using prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

Medicaid and Hospital Assessment Fee (HAF) and Healthy Indiana Plan (HIP) Programs

OPC participates in the State of Indiana's Hospital Assessment Fee (HAF) Program. The purpose of the HAF Program is to fund the State share of enhanced Medicaid payments and Medicaid Disproportionate Share payments for Indiana hospitals as reflected in the HAF Program expense reported in the consolidated statements of operations and changes in net assets. Previously, the State share was funded by governmental entities through intergovernmental transfers. The Medicaid enhanced payments relate to both fee for service and managed care claims. The Medicaid enhanced payments are designed to follow the patients and result in increased Medicaid rates. Hospitals also fund the Healthy Indiana Plan (HIP) Program, the State's Medicaid expansion program. The payments related to the HIP Program mirror the Medicaid payments under the HAF Program, but the funding includes physician, state administration, and certain non-hospital expenditures.

OAKLAWN PSYCHIATRIC CENTER, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2023 AND 2022

During 2023 and 2022, OPC recognized HAF and HIP program expense of approximately \$1,769,000 and \$1,602,000, respectively, which resulted in Medicaid rate increases. The HAF and HIP program expense is included in operating expenses in the consolidated statements of operations and changes in net assets. The Medicaid rate increases under the HAF and HIP programs are included in patient service revenue in the consolidated statements of operations and changes in net assets.

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result of investigations by governmental agencies, various health care entities have received requests for information and notices regarding alleged noncompliance with those laws and regulations, which, in some instances, have resulted in providers entering into significant settlement agreements. Compliance with such laws and regulations may also be subject to future government review and interpretation as well as significant regulatory action, including fines, penalties, and potential exclusion from the related programs. There can be no assurance that regulatory authorities will not challenge OPC's compliance with these laws and regulations, and it is not possible to determine the impact (if any) such claims or penalties would have upon OPC. In addition, the contracts OPC has with commercial payors also provide for retroactive audit and review of claims.

Settlements with third-party payors for retroactive revenue 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. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor and OPC's historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known (that is, new information becomes available), or as years are settled or are no longer subject to such audits, reviews, and investigations.

Consistent with OPC's mission, care is provided to patients regardless of their ability to pay. Therefore, OPC has determined it has provided implicit price concessions to uninsured patients and other uninsured balances (for example, copays and deductibles). The implicit price concessions included in estimating the transaction price represents the difference between amounts billed to patients and the amounts OPC expects to collect based on its collection history with those patients. Patients who meet OPC's criteria for charity care are provided care without charge or at amounts less than established rates. Such amounts determined to qualify as charity care are not reported as revenue.

Generally, patients who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. OPC also provides services to uninsured patients and offers those uninsured patients a discount, either by policy or law, from standard charges. OPC 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. Subsequent changes that are determined to be the result of an adverse change in the patient's ability to pay are recorded as bad debt expense.

OAKLAWN PSYCHIATRIC CENTER, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2023 AND 2022

OPC has determined that the nature, amount, timing, and uncertainty of revenue and cash flows are affected by the following factors:

- Payors (for example, Medicare, Medicaid, managed care or other insurance, patient) have different reimbursement and payment methodologies
- Length of patient's service or episode of care
- Geography of the service location
- Method of reimbursement (fee for service or capitation)
- OPC's line of business that provided the service (for example, inpatient, residential, case management, crisis intervention, outpatient counseling, substance abuse programs, consultative services, and so on)

For 2023 and 2022, OPC recognized revenue of approximately \$37,078,000 and \$38,810,000 respectively, from goods and services that transfer to the patient over time and none from goods and services that transfer to the patient at a point in time.

A summary of patient service revenue for 2023 and 2022 follows:

	2023	2022
Patient service revenue		
Inpatient	\$ 4,550,204	\$ 4,343,812
Outpatient	28,023,574	29,593,974
Residential	13,429,604	13,909,465
	<u>46,003,382</u>	<u>47,847,251</u>
Less		
Charity care	(1,572,275)	(1,627,503)
Contractual adjustments	(6,388,381)	(6,676,034)
Implied price concessions	(964,292)	(733,513)
Patient service revenue	<u>\$ 37,078,434</u>	<u>\$ 38,810,201</u>

A summary of patient service revenue by payor type for 2023 and 2022 follows:

	2023	2022
Payor type		
Medicaid	\$ 20,022,354	\$ 21,345,611
Self pay	741,569	776,204
Medicare	2,595,490	2,716,714
Department of Child Services	11,494,315	11,643,060
Third party contracts and other	2,224,706	2,328,612
	<u>\$ 37,078,434</u>	<u>\$ 38,810,201</u>

OAKLAWN PSYCHIATRIC CENTER, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2023 AND 2022

A summary of patient service revenue by service line for 2023 and 2022 follows

Service line	2023	2022
Inpatient	\$ 2,779,350	\$ 2,791,948
Outpatient	21,316,995	22,690,845
Residential	12,982,089	13,327,408
	<u>\$ 37,078,434</u>	<u>\$ 38,810,201</u>

Charity Care

OPC provides care to patients 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 patient service revenue as OPC does not pursue collection. Amounts for foregone charges related to charity care for 2023 and 2022 totaled approximately \$1,572,000 and \$1,628,000, respectively. Medicaid expansion in the State of Indiana combined with other health care reform initiatives, increased insurance coverage for patients who were previously uninsured. During 2023 and 2022, OPC did not change its policies and procedures related to patient services for bad debt and charity care.

Of OPC's total operating expenses reported, an estimated \$1,929,000 and \$1,924,000 arose from providing services to charity patients during 2023 and 2022, respectively. The estimated costs of providing charity 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 patients. The ratio of cost to charges is calculated based on OPC's total expenses to gross patient service revenue.

Other Receivables

Other receivables relate to services rendered mainly to government entities for which payment was not received by year end. The balance consists primarily of amounts due from the State of Indiana Division of Mental Health and Addiction (DMHA) for community health services, Mental Health Funds Recovery Program and from Elkhart and St. Joseph Counties for county tax receipts to support community health services. See the "Public Support" section of this Note for further information. The other receivables are classified as current as they are expected to be collected during the next fiscal year.

Property, Equipment and Depreciation

Expenditures for property and equipment and items which substantially increase the useful lives of existing assets are capitalized at cost. OPC and Affiliates provides for depreciation on the straight-line method at rates designed to depreciate the costs of assets over estimated useful lives as follows:

	Years
Buildings	18-30
Building and land improvements	5-20
Furnishings and equipment	3-10
Leasehold improvements	10

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Gifts of long-lived assets such as land, buildings, or equipment are reported as support 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 the donated or acquired long-lived assets are placed in service.

OPC and Affiliates are subject to the provisions of the Impairment or Disposal of Long-Lived Assets topic of FASB's ASC 360-10 *Impairment or Disposal of Long-Lived Assets* which has no retroactive impact on OPC and Affiliates' consolidated financial statements. The standard requires impairment losses to be recorded on long-lived assets when indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets (excluding interest) are less than the carrying amount of the assets. In such cases, the carrying value of assets to be held and used are adjusted to their estimated fair value and assets held for sale are adjusted to their estimated fair value less selling expenses. There was no impairment loss during 2023 or 2022.

Property and Equipment Held for Sale

Property and equipment held for sale of \$300,000 as of June 30, 2023 and 2022 is recorded at the estimated selling price less expenses expected at disposition. The carrying value of the property and equipment held for sale was adjusted for an impairment loss during 2021.

Investments and Investment Return

Investments consist primarily of funds that are undesignated, designated for reserve requirements and donor restricted. The funds consist mainly of cash and marketable equity and debt securities. Investments in marketable equity and debt securities are measured at fair value in the consolidated statement of financial position. Fair values are based on quoted market prices, if available, or estimated using quoted market prices for similar securities. Investment income or loss, net of any investment expenses (including net realized and unrealized gains and losses on investments, interest and dividends) is included in investment return, net as a component of the performance indicator unless the income is restricted by donor or law.

Deferred Financing Costs

Deferred financing costs represent costs incurred in connection with the issuance of long-term debt. Such costs are amortized over the term of the respective debt. The costs incurred in issuing the debt are classified with long-term debt, as a deduction, and are amortized using the effective-interest method over the respective term of the debt issues.

Estimated Third-Party Settlements

Estimated third party settlements for certain governmental programs reflect the difference between interim reimbursement and reimbursement determined by contractual agreements and third-party audits. Based upon payments received from certain governmental programs, OPC has estimated and recorded contract liabilities of approximately \$1,700,000, \$1,575,000, and \$1,480,000 as of June 30, 2023 and 2022 and July 1, 2021, respectively. 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.

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Deferred Revenue

Deferred revenue consists primarily of prepaid rental income and is recognized when earned over the period of the agreements.

Net Asset Classifications

Net assets are classified into one of two classes of net assets based on the absence or existence of donor-imposed restrictions. A description of each class follows:

- Net assets without donor restrictions – Net assets without donor restrictions are resources 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 OPC and Affiliates, the environment in which they operate, the purposes specified in corporate documents and applications for tax-exempt status, and any limits resulting from contractual agreements with creditors and others that are entered into in the normal course of operations. These net assets are identified as undesignated or designated for specified purposes. Designated amounts relate to funds internally designated by OPC and Affiliates for debt service, operational reserve requirements and other designations.
- Net assets with donor restrictions - Net assets subject to donor-imposed restrictions that may or will be met either by action of OPC and Affiliates and/or the passage of time and net assets subject to donor-imposed restrictions that neither expire by the passage of time nor can be fulfilled or otherwise removed by actions of OPC and Affiliates. Included in this classification are endowment funds, which are subject to the restrictions of gift instruments requiring that the principal be maintained in perpetuity, and invested for the purpose of producing present and future income. In addition, earnings on donor restricted endowment funds are considered to be restricted and are classified as net assets with donor restrictions until those amounts are appropriated for expenditure. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statements of operations and changes in net assets as net assets released from restrictions. Support that is restricted by the donor is reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the support is recognized.

Public Support

OPC receives revenue from cost-reimbursable federal and state contracts and grants, which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Receipt of these funds is subject to the fulfillment of certain obligations by OPC as prescribed by these programs and funds may be subject to repayment upon a determination of noncompliance made by a funding agency. Furthermore, OPC has a contract with DMHA to provide community mental health services. The State of Indiana has a performance-based reimbursement system. Under this program, OPC is paid a fixed quarterly amount for outcome measures and a performance based quarterly amount for process measures with a possible bonus at year-end. Amounts received are recognized as revenue when OPC has incurred expenditures in compliance with specific contract or grant provisions. Amounts received prior to incurring qualifying expenditures are reported as refundable advances in the consolidated statements of financial position. Refundable advances as of June 30, 2023 and 2022 were approximately \$3,278,000 and \$510,000, respectively. OPC recognized receivables from these programs of \$310,500 and \$277,000 as of June 30, 2023 and 2022, respectively, which is included in other receivables on the consolidated statements of financial position.

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Indiana state law stipulates that the counties served by comprehensive mental health centers provide the centers a minimum designated amount per the county assessed value growth quotient determined by Department of Local Government Finance. Tax receipts are designated to be remitted to the centers typically twice each year. OPC recognizes the county tax receipts as income in the period the funds are due from the counties. Accordingly, amounts are recorded as other receivables or refundable advances based upon the timing of the actual receipts.

OPC participates in the Mental Health Funds Recovery Program (MHFRP). Funding for MHFRP is available through the Medicaid Program for certain administrative activities. Funding under MHFRP is available only to those providers who are certified as Managed Care Providers or Community Mental Health Centers by DMHA. Recognition of revenue under MHFRP is conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses.

The Coronavirus Aid, Relief, and Economic Security Act included a provision for the Employee Retention Tax Credit (ERTC). The ERTC is a fully refundable tax credit for employers equal to 70 percent of qualified wages (including allocable qualified health plan expenses) that eligible employers pay their employees. The ERTC applies to qualified wages paid in calendar year 2021. The credit is 70% of the first \$10,000 in wages per employee in each quarter of calendar year 2021 meaning the ERTC is worth up to \$7,000 per quarter and up to \$28,000 per calendar year, for each employee. OPC recognized approximately \$121,000 and \$1,162,000 of ERTC as grant revenue during 2023 and 2022, respectively, included in public support on the consolidated statements of operations and changes in net assets.

OPC derives a significant portion of its revenue from third-party payors and Federal and state funding programs. The receipt of future revenues by OPC is subject to among other factors, Federal and state 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 are recorded as net assets without donor restrictions or net assets with donor restrictions depending on the existence and/or nature of any donor restrictions. OPC and Affiliates recognize all contributions as income in the period received. All contributions are considered to be without donor restrictions unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as net assets with donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statements of operations and changes in net assets as net assets released from restrictions. Contributions that are received and whose restrictions are satisfied within the same reporting period are reported as net assets without donor restrictions. OPC and Affiliates also evaluate whether a contribution is unconditional or conditional based on the absence or presence of barriers and any right of return provisions. Receipt of funds for conditional contributions are recorded as a refundable advance in the consolidated statements of financial position until conditions are satisfied. Once satisfied, the refundable advance is released into contribution revenue. Materials, property, equipment and other assets received as donations are recorded and reflected in the accompanying consolidated financial statements at their estimated fair market values on the date received. There were no significant contributed nonfinancial assets during 2023 and 2022.

OAKLAWN PSYCHIATRIC CENTER, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2023 AND 2022

Income Taxes

OPC and Affiliates are not-for-profit corporations as described in Section 501(c)(3) of the Internal Revenue Code. As such, OPC and Affiliates are generally exempt from income taxes. However, OPC and Affiliates are required to file Federal Form 990 – Return of Organization Exempt from Income Tax, which is an informational return only. Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by OPC and Affiliates and recognize a tax liability if OPC and Affiliates have taken an uncertain position that more likely than not would not be sustained upon examination by various Federal and state taxing authorities. Management has analyzed the tax positions taken by OPC and Affiliates, and has concluded that as of June 30, 2023 and 2022, 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. OPC and Affiliates are subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

OPC and Affiliates have filed their Federal and state income tax returns for periods through June 30, 2022. These income tax returns are generally open to examination by the relevant taxing authorities for a period of three years from the later of the date the return was filed or its due date (including approved extensions).

Operating and Performance Indicators

The consolidated statements of operations and changes in net assets include an operating indicator, operating income, and a performance indicator, excess of revenues over expenses. The operating indicator excludes nonoperating activities and other changes in net assets without donor restrictions. The performance indicator excludes changes in net assets without donor restrictions such as equity transfers from affiliated parties, net assets released from restriction related to long-lived assets, contributions to supported entities, liquidating distributions, and contributions of long-lived assets.

Contingencies

OPC and Affiliates are involved in various legal proceedings and litigation arising in the ordinary course of business. Although the eventual outcome of these matters is not presently determinable, in the opinion of OPC and Affiliates' management, the resolution of such proceedings and litigation will not have a material adverse effect on OPC and Affiliates' future financial position, results of operations or cash flows.

Going Concern Evaluation

Management evaluated whether there were conditions or events that raise substantial doubt about OPC and Affiliates' ability to continue as a going concern for a period of one year from the date the consolidated financial statements were available to be issued. Management determined there were no conditions or events that would raise substantial doubt about OPC and Affiliates' ability to continue as a going concern for a period of one year from the date the consolidated financial statements were available to be issued.

OAKLAWN PSYCHIATRIC CENTER, INC. AND AFFILIATES

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Subsequent Events

OPC and Affiliates evaluated events or transactions occurring subsequent to the consolidated statement of financial position date for recognition and disclosure in the accompanying consolidated financial statements through the date the consolidated financial statements were available to be issued which was October 23, 2023.

2. CHANGE IN ACCOUNTING PRINCIPLE

On July 1, 2022, OPC and Affiliates adopted the lease accounting standard issued by FASB and codified in the ASC as Topic 842 (ASC 842). The lease standard in ASC 842 intended to improve financial reporting about leasing transactions by requiring entities to recognize on the statement of financial position the assets and liabilities for the rights and obligations created by those leases, and to provide additional disclosures regarding the leases. Leases with terms (as defined in ASC 842) of twelve months or less are not required to be reflected on an entity's statement of financial position.

When adopting ASC 842, OPC and Affiliates applied the modified retrospective approach to all lease agreements. ASC 842 was applied retrospectively to the beginning of the period of adoption through a cumulative-effect adjustment recognized as of July 1, 2022. Prior period adjustments have not been adjusted and continue to be reported in accordance with the previous accounting guidance in ASC 840. The adoption of ASC 842 did not have a material impact on the consolidated statements of financial position, the consolidated statements of operations and changes in net assets, and the consolidated statements of cash flows. As of July 1, 2022, OPC and Affiliates' total assets and total liabilities increased by approximately \$501,000 as a result of ASC 842. The most significant impact was the recognition of right-of-use (ROU) assets under operating leases and operating lease liabilities for operating leases.

OPC and Affiliates elected the available practical expedients to account for its existing capital leases and operating leases as finance leases and operating leases, respectively, under the new guidance, without reassessing (a) whether any expired or existing contracts contain a lease, (b) whether classification of capital leases or operating leases would be different in accordance with the new guidance, or (c) whether the unamortized initial direct costs, if any, before transition adjustments would have met the definition of initial direct costs in the new guidance at lease commencement. In addition, OPC and Affiliates elected the hindsight practical expedient to determine the lease term for existing leases.

3. LIQUIDITY AND AVAILABILITY OF FINANCIAL RESOURCES

As of June 30, 2023, OPC and Affiliates had approximately \$23,809,000 of financial assets available within one year of the consolidated statement of financial position date to meet cash needs for general expenditure consisting of cash of \$14,692,000, patient receivables of \$2,755,000, and other receivables of \$6,362,000. Patient receivables and other receivables are subject to implied time restrictions, but are expected to be collected within one year. As part of OPC and Affiliates' liquidity management, it has a policy to structure financial assets to be available as its general expenditures, liabilities, and other obligations come due. As of June 30, 2022, OPC and Affiliates had \$21,706,000 of financial assets available within one year of the consolidated statement of financial position date to meet cash needs for general expenditure consisting of cash of \$12,741,000, patient receivables of \$2,582,000, and other receivables of \$6,383,000.

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As of June 30, 2023 and 2022, OPC and Affiliates had approximately \$16,654,000 and \$16,330,000, respectively, in long-term investments which were without donor restriction and undesignated. While there is no intent to liquidate these investments, they are available to OPC and Affiliates if needed. Furthermore, OPC and Affiliates had \$5,000,000 available on its line of credit available to meet cash flow needs as June 30, 2023 and 2022.

4. FUNCTIONAL EXPENSES

The costs of providing various programs and other activities have been summarized on a functional basis in the tables below. Accordingly, certain costs have been allocated among the mental health care services, general and administrative, and fundraising functional categories based on actual direct expenditures incurred by departments, locations, and cost centers, and cost allocations based on time spent by OPC's personnel, which primarily include salaries and wages and employee benefits. Other costs require allocations based on a reasonable basis that is consistently applied. The costs that are allocated include occupancy, supplies and other, purchased services, depreciation, and interest, which are allocated based on the ratio of direct costs charged to the category to total direct costs. Although the methods used were appropriate, alternative methods may provide different results. Functional expenses for 2023 and 2022 are as follows:

	June 30, 2023			
	Mental Health Care Services	General and Administrative	Fundraising	Total Expenses
Salaries and wages	\$ 32,320,268	\$ 3,670,414	\$ 144,297	\$ 36,134,979
Employee benefits	6,792,880	779,836	30,776	7,603,492
Occupancy	1,812,256	1,547,551	3,060	3,362,867
Supplies and other	2,983,286	1,107,018	119,652	4,209,956
Purchased services	2,832,009	2,228,837		5,060,846
Depreciation	741,227	145,844	849	887,920
HAF and HIP programs	1,768,502			1,768,502
Interest	240,780	27,344	1,075	269,199
Total expenses by function	49,491,208	9,506,844	299,709	59,297,761
Expenses included in nonoperating revenues (expenses)				
Other nonoperating expenses, net			(264,877)	(264,877)
	<u>\$ 49,491,208</u>	<u>\$ 9,506,844</u>	<u>\$ 34,832</u>	<u>\$ 59,032,884</u>
	June 30, 2022			
	Mental Health Care Services	General and Administrative	Fundraising	Total Expenses
Salaries and wages	\$ 32,485,895	\$ 3,782,052	\$ 125,642	\$ 36,393,589
Employee benefits	7,551,511	903,135	29,197	8,483,843
Occupancy	1,885,884	1,541,429	2,940	3,430,253
Supplies and other	2,759,197	1,004,500	64,643	3,828,340
Purchased services	2,660,440	2,096,887		4,757,327
Depreciation	706,403	135,899	791	843,093
HAF and HIP programs	1,602,430			1,602,430
Interest	254,204	29,595	983	284,782
Total expenses by function	49,905,964	9,493,497	224,196	59,623,657
Expenses included in nonoperating revenues (expenses)				
Other nonoperating expenses, net			(186,912)	(186,912)
	<u>\$ 49,905,964</u>	<u>\$ 9,493,497</u>	<u>\$ 37,284</u>	<u>\$ 59,436,745</u>

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5. PROPERTY AND EQUIPMENT

Property and equipment as of June 30, 2023 and 2022 is summarized below:

	2023	2022
Land and improvements	\$ 2,771,812	\$ 2,565,812
Buildings and improvements	21,151,326	20,748,016
Furnishings and equipment	11,939,805	12,001,189
Construction in progress	16,349,424	4,917,367
	52,212,367	40,232,384
Accumulated depreciation	(25,386,242)	(24,613,539)
	<u>\$ 26,826,125</u>	<u>\$ 15,618,845</u>

There were no significant outstanding commitments related to property and equipment as of June 30, 2023. As of June 30, 2022, OPC was committed to approximately \$9,700,000 for the renovation of an outpatient facility.

Rest Haven

In 2001, OPC entered into a lease agreement with Rest Haven, Inc. (Rest Haven), a not-for-profit organization. Rest Haven provides a separate treatment facility for individuals of the Amish faith. Rest Haven solicited \$250,000 in donations from Amish individuals, churches and districts. Additionally, Rest Haven coordinated the construction of the Rest Haven facility by obtaining donated services, machine hire, planning and labor having an agreed-upon value of \$150,000. The terms of the lease agreement include options to renew for an additional thirty-four years, at five year intervals. Rest Haven is currently leasing this facility from OPC for a five year term expiring in December 2027.

In consideration of the \$250,000 of cash contributions and the \$150,000 of in-kind contributions, no specific amount of rent is required under the lease agreement. The lease agreement provides that in the event Rest Haven chooses not to renew the lease, OPC would be obligated to pay Rest Haven the unamortized balance, as defined by the lease agreement, of \$250,000. If OPC chooses to terminate the lease, OPC would be obligated to pay Rest Haven for the unamortized balance, as defined, of \$400,000. OPC is accounting for the \$400,000 as deferred revenue to be amortized over the thirty-nine year period (initial lease term and all renewal periods). Deferred revenue, related specifically to this lease agreement as of June 30, 2023 and 2022 was approximately \$179,000 and \$190,000, respectively. The cost of the property as of June 30, 2023 and 2022 was \$426,000. The accumulated depreciation on the property as of June 30, 2023 and 2022 was \$229,000 and \$219,000, respectively.

In 2023, OPC entered into an additional lease agreement with Rest Haven. Rest Haven built a learning center called the Renaissance Center. The terms of the lease agreement include options to renew for an additional thirty-four years, at five year intervals. Rest Haven is currently leasing this facility from OPC for a five year term expiring June 2028.

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In consideration of the property contribution, no specific amount of rent is required under the lease agreement. The lease agreement provides that in the event Rest Haven or OPC chooses not to renew the lease, OPC would be obligated to pay Rest Haven the unamortized balance as defined by the lease. OPC is accounting for the \$269,000 as deferred revenue to be amortized over the thirty nine year period (initial lease and all renewals). Deferred revenue, related specifically to this lease agreement as of June 30, 2023 was approximately \$269,000. The cost of the property as of June 30, 2023 was \$283,000. There was no accumulated depreciation on the property as of June 30, 2023.

Horizons of Hope

In 2015, OPC entered into a lease agreement with Horizons of Hope, Inc. (Horizons), a not-for-profit organization. Horizons provides a separate treatment facility for women of the Amish faith. The terms of the lease agreement include options to renew for an additional thirty-four years, at five year intervals. Horizons is currently leasing this facility from OPC for a five year term expiring in May 2025.

In consideration of the property contribution, no specific amount of rent is required under the lease agreement. The lease agreement provides that in the event Horizons chooses not to renew the lease, OPC would be obligated to pay Horizons the unamortized balance, as defined, of \$739,000. If OPC chooses to terminate the lease, OPC would be obligated to pay Horizons for the unamortized balance, as defined by the lease agreement, of \$739,000. OPC is accounting for the \$739,000 as deferred revenue to be amortized over the thirty-nine year period (initial lease term and all renewal periods). Deferred revenue, related specifically to this lease agreement as of June 30, 2023 and 2022 was approximately \$587,000 and \$606,000, respectively. The cost of the property as of June 30, 2023 and 2022 was approximately \$749,000. The accumulated depreciation on the property as of June 30, 2023 and 2022 was \$176,000 and \$154,000, respectively.

6. INVESTMENTS

Investments consist of the following as of June 30, 2023 and 2022:

	2023	2022
Cash	\$ 1,193,809	\$ 1,229,047
Money market funds	3,919,945	5,599,534
Mutual funds	4,057,204	3,805,264
Fixed income obligations	10,686,602	9,670,662
Beneficial interest -		
funds held by community foundations	551,305	608,508
	<u>\$ 20,408,865</u>	<u>\$ 20,913,015</u>

The Foundation records a beneficial interest – funds held by community foundations which include funds held by Elkhart County Community Foundation and the Community Foundation of St. Joseph County. Approximately \$152,000 of the beneficial interest was without donor restrictions, \$59,000 was with donor restrictions for specified purposes and the remaining \$340,000 was with donor restrictions maintained in perpetuity as of June 30, 2023. Approximately \$164,000 of the beneficial interest was without donor restrictions, \$102,000 was with donor restrictions for specified purposes and the remaining \$343,000 was with donor restrictions maintained in perpetuity as of June 30, 2022.

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Additionally, the Foundation benefits from the investment income earned related to approximately \$286,000 and \$322,000 of funds as of June 30, 2023 and 2022, respectively, held at the Elkhart County Community Foundation and the Community Foundation of St. Joseph County. These funds are not recorded on the consolidated financial statements since these two community foundations have variance power.

Investment return, net included in nonoperating revenues (expenses) and changes in net assets with donor restrictions on the consolidated statements of operations and changes in net assets is comprised of the following for 2023 and 2022:

	2023	2022
Interest and dividends	\$ 705,471	\$ 459,292
Investment fees	(31,947)	(28,803)
Realized gain (loss) on investments	(110,816)	679,560
Unrealized gain (loss) on investments	202,796	(1,967,480)
	<u>\$ 765,504</u>	<u>\$ (857,431)</u>

7. FAIR VALUE MEASUREMENTS

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1) and the lowest priority to unobservable inputs (level 3). The three levels of the fair value hierarchy are described as follows:

- Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that OPC and Affiliates have the ability to access.
- Level 2: Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.
- Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

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

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used as of June 30, 2023 and 2022:

- *Mutual funds*: Valued at the daily closing price as reported by the fund. Mutual funds held by OPC and Affiliates are open-end mutual funds that are registered with the Securities and Exchange Commission. These funds are required to publish their net asset value (NAV) and to transact at that price. The mutual funds held by OPC and Affiliates are deemed to be actively traded.

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- *Fixed income obligations:* Valued using pricing models maximizing the use of observable inputs for similar securities.
- *Beneficial interest - funds held by community foundations:* Valued at the fair value as reported by the community foundations, which represents OPC and Affiliates' pro rata interest in the community foundations' pooled investment funds, substantially all of which are valued on a mark-to-market basis.
- *Derivative (Interest rate swap agreement):* Valued using pricing models that are derived principally from observable market data based on discounted cash flows and interest rate yield curves at quoted intervals for the full term of the swap. See the note disclosure "Derivatives Financial Instruments – Interest Rate Swaps" for additional information related to derivatives.

The following tables set forth by level, within the hierarchy, OPC and Affiliates' assets and liabilities measured at fair value on a recurring basis as of June 30, 2023 and 2022 as follows:

	June 30, 2023			
	Total	Level 1	Level 2	Level 3
Assets				
Investments				
Mutual funds				
Equities	\$ 1,773,730	\$ 1,773,730	\$ -	\$ -
Large cap core	313,952	313,952		
Fixed income	563,483	563,483		
International	499,539	499,539		
Other	906,500	906,500		
Total mutual funds	4,057,204	4,057,204		
Fixed income obligations				
Financial	6,906,942		6,906,942	
Consumer goods	3,430,987		3,430,987	
Other	348,673		348,673	
Total fixed income obligations	10,686,602		10,686,602	
Beneficial interest - funds held by community foundations	551,305			551,305
	15,295,111	\$ 4,057,204	\$ 10,686,602	\$ 551,305
Cash and money market funds	5,113,754			
Total investments	\$ 20,408,865			
Derivative asset	\$ 170,108	\$ -	\$ 170,108	\$ -

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		June 30, 2022			
		Total	Level 1	Level 2	Level 3
Assets					
Investments					
Mutual funds					
Equities		\$ 611,708	\$ 611,708	\$ -	\$ -
Large cap core		392,356	392,356		
Fixed income		658,905	658,905		
International		638,333	638,333		
Other		1,503,962	1,503,962		
Total mutual funds		3,805,264	3,805,264		
Fixed income obligations					
Financial		6,543,075		6,543,075	
Consumer goods		2,301,637		2,301,637	
Other		825,950		825,950	
Total fixed income obligations		9,670,662		9,670,662	
Beneficial interest - funds held by community foundations		608,508			608,508
		14,084,434	\$ 3,805,264	\$ 9,670,662	\$ 608,508
Cash and money market funds		6,828,581			
		<u>\$ 20,913,015</u>			
Liabilities					
Derivative liability		\$ 19,977	\$ -	\$ 19,977	\$ -

The following is a reconciliation of activity for assets measured on a recurring basis at fair value based upon significant unobservable (Level 3):

	2023	2022
Funds held by community foundations		
Beginning of year	\$ 608,508	\$ 574,727
Additions	5,813	5,938
Distributions and fees	(40,331)	(34,640)
Unrealized gain (loss) related to instruments held at reporting date	(22,685)	62,483
End of year	<u>\$ 551,305</u>	<u>\$ 608,508</u>

Realized gains and losses are reported in the consolidated statements of operations and changes in net assets as a component of investment return. Realized gains recorded during 2023 approximated \$680,000. Realized losses recorded during 2022 approximated \$111,000. Differences between market value and cost of investments are classified as unrealized gains or losses. Unrealized gains or losses are included in earnings for the period attributable to the change in unrealized gains or losses relating to assets held as of June 30, 2023 and 2022 and are reported in the consolidated statements of operations and changes in net assets in investment return.

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OPC and Affiliates hold investments which are exposed to various risks such as interest rate, market, and credit. Due to the level of risk associated with these securities and the level of uncertainty related to changes in the value, it is at least reasonably possible that changes in the various risk factors will occur in the near term that could materially affect the amounts reported in the accompanying consolidated financial statements.

8. LONG-TERM DEBT

Long-term debt as of June 30, 2023 and 2022 is summarized as follows:

	2023	2022
Adjustable Rate Demand Revenue Refunding Bonds		
Series 2018 dated August 31, 2018 due October 1, 2030. Quarterly principal payments ranging from \$132,500 to \$216,250, interest due monthly at 79% multiplied by the sum of one month SOFR plus 1.72% (5.40% as of June 30, 2023) with a balloon payment due August 2028. Secured by property and equipment with a net book value of approximately \$7,939,000 and \$7,943,000 as of June 30, 2023, and 2022, respectively. Refer to Note 9 for interest rate swap transaction for the Series 2018 Bonds.	\$ 5,687,500	\$ 6,325,000
Adjustable Rate Demand Revenue Refunding Bonds		
Series 2022 dated June 1, 2022 due April 1, 2047. Interest only payments fixed at 3.70% during construction draw period from June 2022 through November 2023. Quarterly principal payments beginning December 2023 ranging from \$77,601 to \$101,850, interest due monthly fixed at 3.70% with a balloon payment due November 2030. Secured by property and equipment with a net book value of approximately \$16,043,000 and \$4,805,000 as of June 30, 2023 and 2022, respectively.	8,646,956	50,350
HUD Supportive Housing Program Loan	100,000	100,000
HOME Neighborhood Participation Program Loan	105,000	105,000
Mortgage payable to Indiana Housing & Community Development Authority, fixed interest at 2%, due 2032, principal and interest payments of \$1,319 are due each month, collateralized by property with a net book value of approximately \$677,000 and \$632,000 as of June 30, 2023 and 2022, respectively.	137,360	148,723
Mortgage payable to Federal Housing Administration, monthly installments of principal and interest of \$4,250, maturity date of April 1, 2042, fixed interest at 3.48%, collateralized by property and equipment with a net book value of approximately \$224,000 and \$209,000 as of June 30, 2023 and 2022, respectively.	703,911	729,926
	15,380,727	7,458,999
Unamortized debt issuance costs	(203,192)	(214,596)
Current portion	(937,218)	(678,056)
	<u>\$ 14,240,317</u>	<u>\$ 6,566,347</u>

OAKLAWN PSYCHIATRIC CENTER, INC. AND AFFILIATES

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During August 2018, the Hospital Authority of Elkhart County (Elkhart Hospital Authority) issued Adjustable Rate Demand Revenue Refunding Bonds, Series 2018 in the amount of \$8,495,000 to refinance the Series 2013 Bonds. OPC, the Elkhart Hospital Authority and Fifth Third Bank (Fifth Third) entered into a Bond Purchase Agreement (Series 2018 Agreement) whereby Fifth Third purchased from the Elkhart Hospital Authority all of the Series 2018 Bonds in a private placement. The Series 2018 Agreement provides that Fifth Third will hold the Series 2018 Bonds through August 2028. At the expiration of the Series 2018 Agreement in 2028, OPC would be subject to payment of the remaining principal balance of approximately \$1,886,000 if a new bond purchase agreement is not executed with Fifth Third or another qualifying institution, or the Series 2018 Bonds cannot be remarketed. The variable rate on the Series 2018 Bonds was based on the London Interbank Offered Rate (LIBOR). Effective June 30, 2023, LIBOR was longer published and was replaced with the Secured Overnight Financing Rate (SOFR).

During June 2022, the Hospital Authority of St. Joseph County (St. Joseph Hospital Authority) issued Adjustable Rate Demand Revenue Refunding Bonds, Series 2022 in the amount of \$9,700,000 to finance renovation of an outpatient facility in St. Joseph County. OPC, the St. Joseph Hospital Authority and Fifth Third entered into a Bond Purchase Agreement (Series 2022 Agreement) whereby Fifth Third purchased from the St. Joseph Hospital Authority all of the Series 2022 Bonds in a private placement. OPC is to draw down on the Series 2022 Bonds over the subsequent 18 months at a fixed interest rate of 3.70%. Interest only will be paid for the first 18 months followed by interest and principal payments over an amortization period of the subsequent 28 quarters. The Series 2022 Agreement provides that Fifth Third will hold the Series 2022 Bonds through November 2030. At the expiration of the Series 2022 Agreement in 2030, OPC would be subject to payment of the remaining principal balance of approximately \$7,333,000 if a new bond purchase agreement is not executed with Fifth Third or another qualifying institution, or the Series 2022 Bonds cannot be remarketed.

The HUD Supportive Housing Program Loan and the HOME Neighborhood Participation Program Loan are both related to the same property with a net book value of approximately \$168,000 and \$163,000 as of June 30, 2023 and 2022, respectively. Both loans are to set to mature on June 30, 2026. These loans bear no interest and repayment is not required as long as the housing projects remain available for the purpose stated in the loan/grant documents. If a default occurs under the terms of these agreements, at the option of the holder, the entire principal and accrued interest (interest accrues at approximately 5% annually) would become due and payable without notice. As of the date of these consolidated financial statements, management believes they have met the criteria required and no interest or principal payments are anticipated.

The following residential properties were awarded grants under HUD section 811 Capital Advance Program:

- Oakland Estates Apartments, Inc.
- Riverside Corporation
- Simadon Corporation
- Madison Residential Services, Inc.

According to the regulatory agreements, the capital advances will bear no interest and are not required to be repaid so long as the residential units remain available for low-income eligible mental health clients for a period of forty years. It is management's intention to comply with the requirements of this program. Management considers the contingent repayment of these grant proceeds to be remote. The capital advances approximated \$3,500,000 as of June 30, 2023 and 2022. The individual amounts range from

OAKLAWN PSYCHIATRIC CENTER, INC. AND AFFILIATES

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\$275,000 to \$1,357,000, expire from 2035 through 2047 and are included in net assets without donor restrictions on the consolidated statements of financial position.

Included in investments on the consolidated statements of financial position are designated HUD reserves of approximately \$556,000 and \$547,000 as of June 30, 2023 and 2022, respectively. The reserves include repair and replacement costs and other escrows which are subject to HUD approval prior to expending.

Aggregate future maturities for long-term debt obligations for the years succeeding June 30, 2023 are as follows:

Year Ending June 30,	
2024	\$ 937,218
2025	1,041,635
2026	1,072,891
2027	1,104,187
2028	1,135,524
Thereafter	10,089,272
	<u>\$ 15,380,727</u>

OPC has a \$5,000,000 line of credit with Fifth Third. The line of credit bears interest at a variable rate (30 day SOFR plus 1.55%) and is secured by property and accounts receivable with a net book value of \$5,000,000 as of June 30, 2023 and 2022. The line of credit expires in January 2024. There were no outstanding borrowings on the line of credit as of June 30, 2023 and 2022.

9. DERIVATIVE FINANCIAL INSTRUMENT – INTEREST RATE SWAP

Objectives and Strategies for Using Derivatives

OPC makes limited use of derivative financial instruments for the purpose of managing interest rate risk. In particular, forward interest rate swaps are used to manage the risk associated with interest rates on variable-rate borrowings and to lower its overall borrowing costs.

During 2019, OPC entered into a new interest rate swap transaction for the Series 2018 Bonds. As of June 30, 2023, the interest rate swap agreement with Fifth Third had a total notional amount of approximately \$5,688,000. The interest rate swap agreement effectively changed OPC's interest rate exposure on a portion of its series 2018 Bonds to a fixed 2.34%. Fifth Third paid the variable rate, 5.40%, as of June 20, 2023. As of June 30, 2022, the interest rate swap agreement with Fifth Third had a total notional amount of \$6,325,000. The interest rate swap agreement effectively changed OPC's interest rate exposure on a portion of its series 2018 Bonds to a fixed 2.34%. Fifth Third paid the variable rate, 2.20%, as of June 20, 2022.

The interest rate swap agreement matures in August 2028. OPC is exposed to credit loss in the event of nonperformance by the other parties to the interest rate swap agreements. However, OPC does not anticipate nonperformance by the counterparties.

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These derivatives are not designated as hedging instruments, and are marked-to-market on the consolidated statements of financial position at fair value at the end of each period. The related gains and losses are included in excess of revenues over expenses, the performance indicator, for the reporting period. Cash flows from interest rate swap contracts are classified as an operating activity on the consolidated statements of cash flows.

The following derivative asset as of June 30, 2023 and derivative liability as of June 30, 2022, and unrealized gain on derivative for 2023 and 2022, were reported in the consolidated statements of financial position and consolidated statements of operations and changes in net assets:

	2023	2022
Derivative asset	\$ 170,108	
Derivative liability		\$ 19,977
Unrealized gain on derivative	\$ 190,085	\$ 504,477

Additional information regarding fair value measurements of the interest rate swap agreements is disclosed in the Fair Value Measurements note.

10. OPERATING LEASES

OPC and Affiliates recognizes ROU assets and lease liabilities for leases with terms greater than 12 months or leases that contain a purchase option that is reasonably certain to be exercised. Leases are classified as either finance or operating leases. This classification dictates whether lease expense is recognized based on an effective interest method or on a straight-line basis over the term of the lease. OPC and Affiliates had no financing leases as of June 30, 2023.

OPC and Affiliates has operating leases for vehicles and copiers. Leasing arrangements require fixed payments and also include an amount that is probable will be owed under residual value guarantees, if applicable. Lease payments also include payments related to purchase or termination options when the lessee is reasonably certain to exercise the option or is reasonably certain not to exercise the option, respectively. OPC and Affiliates' lease agreements do not contain any material restrictive covenants. The leases have remaining terms of approximately 1 to 3 years.

OPC and Affiliates' ROU assets and lease liabilities are recognized on the lease commencement date in an amount that represents the present value of future lease payments over the lease term. As a not-for-profit business entity, OPC and Affiliates made a policy election to use a risk-free discount rate based on the rate of a zero-coupon U.S. treasury instrument commensurate to the lease term as the discount rate for its leases unless OPC and Affiliates can specifically determine the lessor's implicit rate. Certain lease contracts contain non-lease components such as maintenance and utilities. OPC and Affiliates has made a policy election to not separate the lease and non-lease components, and thus recognize a single lease component for all of its right-of-use assets and lease liabilities. The operating lease ROU asset also includes any lease payments made and excludes lease incentives, if any.

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Short-term leases (leases with an initial term of 12 months or less or leases that are cancelable by the lessee and lessor without significant penalties) are not capitalized but are rather expensed on a straight-line basis over the lease term. Short-term leases were not significant to the consolidated financial statements.

In evaluating contracts to determine if they qualify as a lease, OPC and Affiliates considers factors such as if it has obtained substantially all of the rights to the underlying asset through exclusivity, if OPC and Affiliates can direct the use of the asset by making decisions about how and for what purpose the asset will be used and if the lessor has substantive substitution rights. Furthermore, OPC and Affiliates assesses whether it is reasonably certain to exercise options to extend or terminate a lease considering all relevant factors that create economic incentive to exercise such options, including asset, contract, market, and entity-based factors. These evaluations may require significant judgement.

The components of OPC and Affiliates' lease cost, ROU assets and lease liabilities as of and for the year ended June 30, 2023 are as follows:

Lease cost	
Operating lease cost	<u>\$ 288,433</u>
Right-of-use assets	
Operating lease assets, net	<u>\$ 219,280</u>
Lease liabilities	
Operating lease liabilities, current	\$ 166,507
Operating lease liabilities, noncurrent	<u>52,773</u>
Total lease liabilities	<u>\$ 219,280</u>

Additional information regarding cash payments under OPC and Affiliates' operating leases during 2023, as well as the inputs used in determining the ROU assets and liabilities at June 30, 2023, is as follows:

Cash paid for amount included in measurement of lease liabilities:	
Operating cash flows from operating leases	\$ 288,433
Weighted-average remaining lease term - operating leases	2.1 years
Weighted-average discount rate - operating leases	2.0%

Future payments of lease liabilities as of June 30, 2023 are as follows:

Year Ending June 30,	
2024	\$ 167,742
2025	37,895
2026	<u>15,031</u>
Total lease payments	220,668
Less interest	<u>(1,388)</u>
Present value of lease liabilities	<u>\$ 219,280</u>

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Total rental expense for all operating leases during 2022 was approximately \$263,000. Future minimum lease payments under operating leases having initial terms in excess of one year as of June 30, 2022, under previous accounting guidance under ASC 840, were as follows:

Year Ending June 30,	
2023	\$ 286,546
2024	157,360
2025	37,895
2026	15,031
Total lease payments	<u>\$ 496,832</u>

11. NET ASSETS WITH DONOR RESTRICTIONS AND ENDOWMENTS

Net assets with donor restrictions consist of the following as of June 30, 2023 and 2022:

	2023		2022	
	With Donor Restrictions For Specified Purposes	With Donor Restrictions Maintained in Perpetuity	With Donor Restrictions For Specified Purposes	With Donor Restrictions Maintained in Perpetuity
Sailor and Children and Families	\$ 501,305	\$ 1,167,851	\$ 441,431	\$ 1,167,851
Community Foundations	58,849	339,719	102,010	343,098
Partnership for Children	367,101		415,356	
2020 Campaign	99,398		117,016	
Other	391,670		336,299	
	<u>\$ 1,418,323</u>	<u>\$ 1,507,570</u>	<u>\$ 1,412,112</u>	<u>\$ 1,510,949</u>

Net assets released from restrictions for 2023 and 2022 were as follows:

	2023	2022
Sailor and Children and Families	\$ 65,862	\$ 64,894
Partnership for Children	284,820	382,040
Other	282,383	222,994
	<u>\$ 633,065</u>	<u>\$ 669,928</u>

The Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds Topic of the FASB ASC affirms that in the absence of explicit donor stipulations, an organization should continue to classify all or a portion of a donor-restricted endowment fund as net assets with donor restrictions maintained in perpetuity based on the governing board's determination of the amount of the fund that must be retained permanently under the relevant law.

OAKLAWN PSYCHIATRIC CENTER, INC. AND AFFILIATES

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The Foundation has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as net assets with donor restrictions maintained in perpetuity (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund, if any, that is not classified in net assets with donor restrictions maintained in perpetuity is classified as net assets with donor restrictions for specified purposes until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Foundation
- (7) The investment policies of the Foundation.

The Foundation's endowment consists of individual funds established for a variety of purposes. Its endowment includes only donor-restricted endowment funds to function as endowments. Net assets associated with endowment funds, including funds designated by the Foundation to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that UPMIFA requires the Foundation to retain as a fund of perpetual duration. In accordance with accounting principles generally accepted in the United States of America, deficiencies of this nature shall reduce net assets with donor restrictions for specified purposes to the extent that donor-imposed restrictions for specified purposes on investment income of the fund have not been met before the deficiencies occur. Any remaining deficiencies shall reduce net assets without donor restrictions. The Foundation believes there were no such deficiencies as of June 30, 2023 and 2022.

The Foundation adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowments while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Foundation must hold in perpetuity or for a donor-specified period(s). Under this policy, as approved by the Foundation, the endowment assets are invested in a manner that is intended to minimize the risk of large losses by diversification. The objective is to meet or exceed the market index, or blended market index, selected and agreed upon by the Foundation or provide an acceptable return with lower volatility or credit risk.

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In order to meet its needs, the investment strategy of the Foundation is to emphasize total return; that is, the aggregate return from capital appreciation and dividend and interest income. Specifically, the primary objective in the investment management for endowment fund assets shall be long-term growth of capital and to emphasize long-term growth of principal while avoiding excessive risk. Short-term volatility will be tolerated in as much as it is consistent with the volatility of a comparable market index.

The following provides a description of restrictions placed on the net assets represented in the Foundation's endowment:

- (1) The portion of donor-restricted perpetual endowment funds that is deemed to be restricted in perpetuity either by explicit donor stipulation or by law.
- (2) The portion of the donor-restricted term endowment funds that is deemed to be restricted over the donor-specified period of the endowment either by explicit donor stipulation or by law.

The net asset composition of the donor-restricted endowment is as follows:

	2023	2022
Restricted for specified purposes	\$ 560,154	\$ 543,441
To be maintained in perpetuity	1,507,570	1,510,949
	<u>\$ 2,067,724</u>	<u>\$ 2,054,390</u>

The changes in the donor-restricted endowment are as follows:

	June 30, 2023		
	With Donor Restrictions For Specified Purposes	With Donor Restrictions Maintained in Perpetuity	Total
Balance, beginning of year	\$ 543,441	\$ 1,510,949	\$ 2,054,390
Net investment return	125,735		125,735
Change in beneficial interest - funds held by community foundations	(43,161)	(3,379)	(46,540)
Approved for expenditure	(65,861)		(65,861)
Balance, end of year	<u>\$ 560,154</u>	<u>\$ 1,507,570</u>	<u>\$ 2,067,724</u>

	June 30, 2022		
	With Donor Restrictions For Specified Purposes	With Donor Restrictions Maintained in Perpetuity	Total
Balance, beginning of year	\$ 848,572	\$ 1,508,287	\$ 2,356,859
Net investment return	(261,012)		(261,012)
Contributions		1,000	1,000
Change in beneficial interest - funds held by community foundations	20,777	1,662	22,439
Approved for expenditure	(64,896)		(64,896)
Balance, end of year	<u>\$ 543,441</u>	<u>\$ 1,510,949</u>	<u>\$ 2,054,390</u>

OAKLAWN PSYCHIATRIC CENTER, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2023 AND 2022

12. CONCENTRATIONS OF CREDIT RISK

OPC serves the residents of Elkhart, St. Joseph and surrounding counties in the State of Indiana. OPC grants credit without collateral to its patients, most of who are uninsured or insured under third-party payor agreements. The mix of patient receivables and patient revenues on a gross basis from patients and third-party payors as of and for year ended June 30 was as follows:

	Receivables		Revenues	
	2023	2022	2023	2022
Medicaid	32%	33%	54%	55%
Self pay			2%	2%
Medicare	5%	7%	7%	7%
Department of Child Services	59%	54%	31%	30%
Third party contracts and other	4%	6%	6%	6%
	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

13. MALPRACTICE COVERAGE

OPC purchases professional and general liability insurance to cover malpractice claims. There are known claims and 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 patients. The Indiana Medical Malpractice Act, IC 34-18 (the Act) provides a maximum recovery of \$1,800,000 for an occurrence of malpractice and provided a maximum recovery of \$1,650,000 prior to July 1, 2019. The Act requires OPC to maintain medical malpractice liability insurance in the amount of at least \$500,000 per occurrence (\$10,000,000 in the annual aggregate). Prior to July 1, 2019, the Act required OPC to maintain medical malpractice liability insurance in the amount of at least \$400,000 per occurrence (\$8,000,000 in the annual aggregate). The Act also requires OPC to pay a surcharge to the State Patient's Compensation Fund (the Fund). The Fund is used to pay medical malpractice claims in excess of per occurrence and the annual aggregate amounts as noted above, under certain terms and conditions. No accrual for possible losses attributable to incidents that may have occurred but that have not been identified has been made because the amount, if any, is not reasonably estimable. The Fund is on a claims-made basis and as long as this coverage is continuous or replaced with equivalent insurance, claims based on occurrences during its term but reported subsequently will be insured.

Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of malpractice claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Based upon OPC's claim experience, no such accrual has been made. It is reasonably possible that this estimate could change materially in the near term.

OAKLAWN PSYCHIATRIC CENTER, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2023 AND 2022

14. STATE AND LOCAL FUNDING

During 2023 and 2022, OPC received the following state, local and county funding:

Grantor	2023	2022
State		
Indiana Division of Mental Health and Addiction	\$ 5,832,146	\$ 6,177,369
Mental Health Funds Recovery Program	2,831,789	2,559,054
Other	666,159	2,040,707
Total state awards	9,330,094	10,777,130
Local		
Elkhart County	1,771,927	1,620,326
St. Joseph County	2,430,719	2,215,139
Total local awards	4,202,646	3,835,465
Total state and local awards	\$ 13,532,740	\$ 14,612,595

15. PENSION PLAN

OPC maintains a pension plan, which covers substantially all employees meeting the necessary eligibility requirements. The pension plan is qualified under section 403(b) of the Internal Revenue Code. OPC's discretionary contributions to the pension plan are based on the eligible participant's defined compensation. OPC's expense related to the pension plan was approximately \$465,000 and \$478,000 during 2023 and 2022, respectively.

16. SELF-INSURED HEALTH PLAN

OPC is a member of a pooled self-insurance health plan (the Health Plan). Pursuant to the plan agreement, each member is required to make monthly contributions to the plan's administrator that are available to satisfy the insurance claims of each members' participating employees. The Health Plan calls for all claims to be paid out of the pool, but once any individual's aggregated claims exceed \$275,000, the Health Plan's stop-loss amount, for June 30, 2023 and 2022, respectively, all remaining claims for that individual are covered under the Health Plan's insurance. Each member is directly responsible for claims up to a maximum dollar amount. The level set for such exposure impacts the contributions paid by the members. As of June 30, 2023 and 2022, OPC has elected to be directly responsible for claims up to \$250,000 per individual. Any claims in excess of \$250,000, but less than \$275,000, are paid out of the members' pooled funds.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2023 AND 2022

17. PROVIDER RELIEF FUNDS

During 2022, Provider Relief Fund (PRF) grants authorized under the Coronavirus Aid, Relief, and Economic Security (CARES) Act and American Rescue Plan (ARP) Act were distributed to healthcare providers impacted by the outbreak of the COVID-19 pandemic. OPC received approximately \$312,000 of PRF during 2022. PRF amounts were recognized to the extent OPC met the terms and conditions of the grant. OPC recognized PRF of \$312,000 as public support within revenues in the consolidated statements of operations and changes in net assets during 2022. OPC did not receive or recognize PRF amounts as revenue during 2023. No PRF amounts were deferred as refundable advances as of June 30, 2023 and 2022. Compliance with the terms and conditions as set forth related to qualifying COVID-19 expenses and lost revenues are subject to future government review and interpretation. There can be no assurance that regulatory authorities will not challenge OPC's compliance with the terms and conditions as set forth related to qualifying COVID-19 expenses and lost revenues, and it is not possible to determine the impact (if any) such claims would have upon OPC's financial position.

SUPPLEMENTARY INFORMATION

OAKLAWN PSYCHIATRIC CENTER, INC. AND AFFILIATES

CONSOLIDATING STATEMENT OF FINANCIAL POSITION JUNE 30, 2023

ASSETS	OPC	Foundation	HUD Projects	Eliminations	Total
Current assets					
Cash	\$ 14,185,238	\$ 449,633	\$ 56,633	\$ -	\$ 14,691,504
Patient receivables	2,755,067				2,755,067
Other receivables	6,198,151	244,221	34,452	(101,853)	6,374,971
Prepaid expenses and other current assets	841,864		12,385		854,249
Total current assets	23,980,320	693,854	103,470	(101,853)	24,675,791
Property and equipment, net	24,827,108		1,999,017		26,826,125
Property and equipment held for sale	300,000				300,000
Right-of-use assets under operating leases, net	219,280				219,280
Investments					
Undesignated	16,240,829	413,670			16,654,499
Designated	15,524	340,096	556,349		911,969
Donor restricted		2,291,092			2,291,092
Beneficial interest - funds held by community foundations		551,305			551,305
Total investments	16,256,353	3,596,163	556,349		20,408,865
Derivative asset	170,108				170,108
Total assets	\$ 65,753,169	\$ 4,290,017	\$ 2,658,836	\$ (101,853)	\$ 72,600,169
LIABILITIES AND NET ASSETS					
Current liabilities					
Current portion of long-term debt	\$ 910,283	\$ -	\$ 26,935	\$ -	\$ 937,218
Current portion of operating lease liabilities	166,507				166,507
Accounts payable and accrued expenses	3,405,377	101,853	172,773	(101,853)	3,578,150
Refundable advances	3,277,557	81,229			3,358,786
Estimated third-party settlements	1,699,893				1,699,893
Accrued wages and related liabilities	3,397,747				3,397,747
Total current liabilities	12,857,364	183,082	199,708	(101,853)	13,138,301
Long-term debt, net of current portion	13,597,989		642,328		14,240,317
Operating lease liabilities, net of current portion	52,773				52,773
Deferred revenue	1,035,834				1,035,834
Total liabilities	27,543,960	183,082	842,036	(101,853)	28,467,225
Net assets					
Without donor restrictions					
Undesignated	38,193,685	840,946	1,260,451		40,295,082
Designated	15,524	340,096	556,349		911,969
Total without donor restrictions	38,209,209	1,181,042	1,816,800		41,207,051
With donor restrictions		2,925,893			2,925,893
Total net assets	38,209,209	4,106,935	1,816,800		44,132,944
Total liabilities and net assets	\$ 65,753,169	\$ 4,290,017	\$ 2,658,836	\$ (101,853)	\$ 72,600,169

See report of independent auditors on pages 1 through 3.

OAKLAWN PSYCHIATRIC CENTER, INC. AND AFFILIATES

CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS YEAR ENDED JUNE 30, 2023

	OPC	Foundation	HUD Projects	Eliminations	Total
Revenues					
Patient service revenue	\$ 37,078,434	\$ -	\$ -	\$ -	\$ 37,078,434
Public support	21,243,834			(376,705)	20,867,129
Other	947,405		658,276		1,605,681
Total revenues	59,269,673		658,276	(376,705)	59,551,244
Expenses					
Salaries and wages	35,784,751		150,611		35,935,362
Employee benefits	7,536,200		25,288		7,561,488
Occupancy	3,114,013		248,854		3,362,867
Supplies and other	4,170,255		16,445		4,186,700
Purchased services	4,897,880		162,966		5,060,846
Depreciation	798,660		89,260		887,920
HAF and HIP programs	1,768,502				1,768,502
Interest	242,362		26,837		269,199
Total expenses	58,312,623		720,261		59,032,884
Operating income (loss)	957,050		(61,985)	(376,705)	518,360
Nonoperating revenues (expenses)					
Contributions	1,242,473	391,742		(1,242,473)	391,742
Grants to OPC		(1,619,178)		1,619,178	
Investment return, net	462,938	176,831			639,769
Change in beneficial interest - funds held by community foundations		(10,663)			(10,663)
Unrealized gain on derivative	190,085				190,085
Other nonoperating expenses, net		(264,877)			(264,877)
Total nonoperating revenues (expenses)	1,895,496	(1,326,145)		376,705	946,056
Excess of revenues over (under) expenses	2,852,546	(1,326,145)	(61,985)		1,464,416
Other changes in net assets without donor restrictions					
Net assets released from restriction		633,065			633,065
Change in net assets without donor restrictions	2,852,546	(693,080)	(61,985)		2,097,481
Changes in net assets with donor restrictions					
Net assets released from restriction		(633,065)			(633,065)
Investment return, net		125,735			125,735
Contributions		556,702			556,702
Change in beneficial interest - funds held by community foundations		(46,540)			(46,540)
Change in net assets with donor restrictions		2,832			2,832
Change in net assets	2,852,546	(690,248)	(61,985)		2,100,313
Net assets					
Beginning of year	35,356,663	4,797,183	1,878,785		42,032,631
End of year	\$ 38,209,209	\$ 4,106,935	\$ 1,816,800	\$ -	\$ 44,132,944

See report of independent auditors on pages 1 through 3.

OAKLAWN PSYCHIATRIC CENTER, INC. AND AFFILIATES

CONSOLIDATING STATEMENT OF FINANCIAL POSITION JUNE 30, 2022

ASSETS	OPC	Foundation	HUD Projects	Eliminations	Total
Current assets					
Cash	\$ 12,440,705	\$ 247,562	\$ 52,831	\$ -	\$ 12,741,098
Patient receivables	2,581,834				2,581,834
Other receivables	6,214,797	306,458	6,659	(144,637)	6,383,277
Prepaid expenses and other current assets	829,460		12,364		841,824
Total current assets	22,066,796	554,020	71,854	(144,637)	22,548,033
Property and equipment, net	13,543,075		2,075,770		15,618,845
Property and equipment held for sale	300,000				300,000
Investments					
Undesignated	15,866,880	463,025			16,329,905
Designated	108,584	1,136,273	546,751		1,791,608
Donor restricted		2,182,994			2,182,994
Beneficial interest - funds held by community foundations		608,508			608,508
Total investments	15,975,464	4,390,800	546,751		20,913,015
Total assets	\$ 51,885,335	\$ 4,944,820	\$ 2,694,375	\$ (144,637)	\$ 59,379,893
LIABILITIES AND NET ASSETS					
Current liabilities					
Current portion of long-term debt	\$ 652,041	\$ -	\$ 26,015	\$ -	\$ 678,056
Accounts payable and accrued expenses	2,756,738	144,637	122,160	(144,637)	2,878,898
Refundable advances	510,161				510,161
Estimated third-party settlements	1,574,768				1,574,768
Accrued wages and related liabilities	4,320,398	3,000			4,323,398
Total current liabilities	9,814,106	147,637	148,175	(144,637)	9,965,281
Long-term debt, net of current portion	5,898,932		667,415		6,566,347
Deferred revenue	795,657				795,657
Derivative liability	19,977				19,977
Total liabilities	16,528,672	147,637	815,590	(144,637)	17,347,262
Net assets					
Without donor restrictions					
Undesignated	35,248,079	737,849	1,332,034		37,317,962
Designated	108,584	1,136,273	546,751		1,791,608
Total without donor restrictions	35,356,663	1,874,122	1,878,785		39,109,570
With donor restrictions		2,923,061			2,923,061
Total net assets	35,356,663	4,797,183	1,878,785		42,032,631
Total liabilities and net assets	\$ 51,885,335	\$ 4,944,820	\$ 2,694,375	\$ (144,637)	\$ 59,379,893

See report of independent auditors on pages 1 through 3.

OAKLAWN PSYCHIATRIC CENTER, INC. AND AFFILIATES

CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS YEAR ENDED JUNE 30, 2022

	OPC	Foundation	HUD Projects	Eliminations	Total
Revenues					
Patient service revenue	\$ 38,810,201	\$ -	\$ -	\$ -	\$ 38,810,201
Public support	21,957,580			(491,646)	21,465,934
Other	598,686		652,609		1,251,295
Total revenues	61,366,467		652,609	(491,646)	61,527,430
Expenses					
Salaries and wages	36,132,022		121,906		36,253,928
Employee benefits	8,426,131		25,152		8,451,283
Occupancy	3,186,157		244,096		3,430,253
Supplies and other	3,788,329		25,320		3,813,649
Purchased services	4,632,516		124,811		4,757,327
Depreciation	753,440		89,653		843,093
HAF and HIP programs	1,602,430				1,602,430
Interest	257,057		27,725		284,782
Total expenses	58,778,082		658,663		59,436,745
Operating income (loss)	2,588,385		(6,054)	(491,646)	2,090,685
Nonoperating revenues (expenses)					
Gain on disposal of property and equipment	984				984
Contributions	139,304	383,154		(139,304)	383,154
Grants to OPC		(630,950)		630,950	
Investment return, net	(393,467)	(202,952)			(596,419)
Change in beneficial interest - funds held by community foundations		11,342			11,342
Unrealized gain on derivative	504,477				504,477
Other nonoperating expenses, net		(186,912)			(186,912)
Total nonoperating revenues (expenses)	251,298	(626,318)		491,646	116,626
Excess of revenues over (under) expenses	2,839,683	(626,318)	(6,054)		2,207,311
Other changes in net assets without donor restrictions					
Net assets released from restriction		669,928			669,928
Change in net assets without donor restrictions	2,839,683	43,610	(6,054)		2,877,239
Changes in net assets with donor restrictions					
Net assets released from restriction		(669,928)			(669,928)
Investment return, net		(261,012)			(261,012)
Contributions		717,166			717,166
Change in beneficial interest - funds held by community foundations		22,439			22,439
Change in net assets with donor restrictions		(191,335)			(191,335)
Change in net assets	2,839,683	(147,725)	(6,054)		2,685,904
Net assets					
Beginning of year	32,516,980	4,944,908	1,884,839		39,346,727
End of year	\$ 35,356,663	\$ 4,797,183	\$ 1,878,785	\$ -	\$ 42,032,631

See report of independent auditors on pages 1 through 3.



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**REPORT OF INDEPENDENT AUDITORS ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Directors
Oaklawn Psychiatric Center, Inc. and Affiliates
Goshen, Indiana

Report on the Consolidated Financial Statements

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Oaklawn Psychiatric Center, Inc. and Affiliates (OPC and Affiliates), which comprise the consolidated statement of financial position as of June 30, 2023, and the related consolidated statements of operations and changes in net assets, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated October 23, 2023. Our report includes a reference to other auditors who audited the financial statements of Oaklawn Apartments, Inc., Simadon Corporation and Madison Residential Services, Inc., as described in our report on OPC and Affiliates' consolidated financial statements. This report does not include the results of the other auditor's testing of internal control over financial reporting or compliance and other matters that are reported separately by those auditors.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered OPC and Affiliates' internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of OPC and Affiliates' internal control. Accordingly, we do not express an opinion on the effectiveness of OPC and Affiliates' internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of OPC and Affiliates' consolidated financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Board of Directors
Oaklawn Psychiatric Center, Inc. and Affiliates
Goshen, Indiana

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that have not been identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether OPC and Affiliates' consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the consolidated financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of OPC and Affiliates' internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering OPC and Affiliates' internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Blue & Co., LLC

Indianapolis, Indiana
October 23, 2023



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**REPORT OF INDEPENDENT AUDITORS ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND
ON INTERNAL CONTROL OVER COMPLIANCE AND SCHEDULE OF EXPENDITURES OF FEDERAL
AWARDS REQUIRED BY THE UNIFORM GUIDANCE**

Board of Directors
Oaklawn Psychiatric Center, Inc. and Affiliates
Goshen, Indiana

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Oaklawn Psychiatric Center, Inc. and Affiliates' (OPC and Affiliates) compliance with the types of compliance requirements identified as subject to audit in the OMB Compliance Supplement that could have a direct and material effect on each of OPC and Affiliates' major federal programs for the year ended June 30, 2023. OPC and Affiliates' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, OPC and Affiliates complied, in all material respects, with the compliance requirements referred to above is that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2023.

OPC and Affiliates' basic consolidated financial statements include the operations of Oaklawn Apartments, Inc., Simadon Corporation and Madison Residential Services, Inc. (collectively referred to as HUD Affiliates), which received approximately \$3,228,000 in federal awards and has not been included in the accompanying schedule of expenditures of federal awards during the year ended June 30, 2023. Our audit, described below, did not include the operations of the above-mentioned HUD Affiliates because the HUD Affiliates were independently audited by other auditors in accordance with Title 2 U.S. *Code of Federal Regulations (CFR) Part 200*.

Basis for Opinion on Each Major Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of OPC and Affiliates and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion. Our audit does not provide a legal determination of OPC and Affiliates' compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to OPC and Affiliates' federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on OPC and Affiliates' compliance based on our audit. 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, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgement made by a reasonable user of the report on compliance about OPC and Affiliates' compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgement and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, 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 OPC and Affiliates' compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of OPC and Affiliates' internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of OPC and Affiliates' internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control Over Compliance

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over

compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the consolidated financial statements of OPC and Affiliates as of and for the year ended June 30, 2023 and have issued our report thereon dated October 23, 2023, which contained an unmodified opinion on those consolidated financial statements. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by the Uniform Guidance, is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Blue & Co., LLC

Indianapolis, Indiana
October 23, 2023

OAKLAWN PSYCHIATRIC CENTER, INC. AND AFFILIATES

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS YEAR ENDED JUNE 30, 2023

Federal Grantor/Program Title/Pass-Through Grantor	Assistance Listing Number	Pass-Through Grantor's Number	Expenditures
Major Program			
United States Department of Health and Human Services (DHHS) - Community Mental Health Services Block Grant - Indiana Division of Mental Health and Addictions (DMHA)	93.958	62013, 6H79SM085549	\$ 1,783,029
Non-Major Programs			
United States Department of Agriculture (USDA) - National School Breakfast Program - Indiana Department of Education Division of School and Community Nutrition (IDOE) - Child Nutrition Cluster	10.553	23-K061	66,254
USDA - National School Lunch Program - IDOE - Child Nutrition Cluster	10.555	23-K061	84,323
Total Child Nutrition Cluster			<u>150,577</u>
United States Department of Housing and Urban Development (DHUD) - Emergency Solutions Grant	14.231	23-EV-30	205,502
DHUD - HOME Investment Partnerships Program - Indiana Housing and Community Development Authority (IHCDA)	14.239	23-JH-70	136,616
DHUD - Continuum of Care Program - IHCDA	14.267	IN0012L5H022015	748,966
DHHS - Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances - County of Elkhart	93.104	H79SM082981	961,715
DHHS - Projects for Assistance in Transition from Homelessness - DMHA	93.150	66271	97,733
DHHS - Substance Abuse and Mental Health Services Projects of Regional and National Significance - DMHA	93.243	45268	59,539
DHHS - COVID-19, CARES Act Provider Relief Funds	93.498	Not available	312,105
DHHS - Social Services Block Grant - DMHA	93.667	62013	224,112
DHHS - Opioid STR Domestic Ebola Supplemental to the Epidemiology and Laboratory Capacity for Infectious Disease - DMHA	93.788	1H79TI083279	565,571
DHHS - Section 223 Demonstration Programs to Improve Community Mental Health Services	93.829	H79SM083314	1,382,697
DHHS - Substance Abuse Prevention and Treatment Block Grant - DMHA	93.959	62013	706,227
Total non-major programs			<u>5,551,360</u>
Total federal expenditures			<u>\$ 7,334,389</u>

See report on schedule of expenditures of federal awards as required by the Uniform Guidance on page 43.
See notes to schedule of expenditures of federal awards.

OAKLAWN PSYCHIATRIC CENTER, INC. AND AFFILIATES

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS JUNE 30, 2023

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (SEFA) for the year ended June 30, 2023 includes the federal grant activity of Oaklawn Psychiatric Center, Inc. (OPC) only and not the consolidated affiliates and is presented on the accrual basis of accounting. The information in the SEFA is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. OPC's consolidated affiliates, Oaklawn Apartments, Inc., Simadon Corporation and Madison Residential Services, Inc. (collectively referred to as HUD Affiliates) received approximately \$3,228,000 in federal awards which are not included in OPC's accompanying SEFA for 2023. These HUD Affiliates were independently audited by other auditors in accordance with Title 2 U.S. *Code of Federal Regulations (CFR) Part 200*. The basic consolidated financial statement classifications may include other financial activity for reporting purposes. Therefore, some of the amounts presented in the SEFA may differ from amounts presented in, or used in the preparation of, the basic consolidated financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the SEFA are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. OPC has elected not to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.

3. HUD SUPPORTED HOUSING AND HOME INVESTMENT PARTNERSHIPS PROGRAMS

OPC had the following balances outstanding as of June 30, 2023 from HUD Supported Housing and HOME Investment Partnerships Programs through HUD for the construction and renovation of a group home facility. These amounts were recorded on the SEFA in the year the proceeds were expended.

Federal Grantor/Program Title/Pass-Through Grantor	Assistance Listing Number	Pass-Through Grantor's Number	Amount Outstanding
DHUD - Supportive Housing Program	14.182	IN36B300001	\$ 100,000
DHUD - HOME Investment Partnerships Program - IHODA	14.239	12-JH-70	105,000
			<u>\$ 205,000</u>

4. SUB-RECIPIENT PASS THROUGH

OPC did not pass through federal awards to sub-recipients during 2023.

5. PROVIDER RELIEF FUNDS

Under terms and conditions of the Provider Relief Funds (PRF) under the Coronavirus Aid, Relief, and Economic Security (CARES) Act and American Rescue Plan (ARP) Act, OPC is required to report COVID-19 related expenses and lost revenue to the U.S. Department of Health and Human Services (HHS). Guidance from HHS has required the reporting of the COVID-19 related expenses and lost revenue in certain reporting periods based on when the funds were received.

See report on schedule of expenditures of federal awards as required by the Uniform Guidance on page 43.

OAKLAWN PSYCHIATRIC CENTER, INC. AND AFFILIATES

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS JUNE 30, 2023

The 2023 SEFA includes PRF of approximately \$312,000 which was received by OPC between July 1, 2021 and June 30, 2022. OPC recognized \$312,000 as revenue in its 2022 consolidated statement of operations and changes in net assets as the terms and conditions of the PRF grant were satisfied by OPC during 2022. HHS required these PRF amounts be reported on the 2023 SEFA rather than the 2022 SEFA.

6. FAIR MARKET VALUE OF DONATED PERSONAL PROTECTIVE EQUIPMENT (UNAUDITED)

During 2023, OPC did not receive donated personal protective equipment from federal sources.

OAKLAWN PSYCHIATRIC CENTER, INC. AND AFFILIATES

SCHEDULE OF FINDINGS AND QUESTIONED COSTS JUNE 30, 2023

Section I – Summary of Audit Results:

Consolidated Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? ☐ yes ☒ none reported

Significant deficiency(s) identified that are not considered to be material weakness(es) noted? ☐ yes ☒ none reported

Noncompliance material to financial statements noted? ☐ yes ☒ no

Federal Awards

Internal controls over major programs:

Material weakness(es) identified? ☐ yes ☒ none reported

Significant deficiency(s) identified that are not considered to be material weakness(es) noted? ☐ yes ☒ none reported

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR section 200.516(a)? ☐ yes ☒ no

Identification of major programs:

Assistance Listing Number
93.958

Name of Federal Program or Cluster
Community Mental Health Services Block Grant

Dollar threshold used to distinguish between type A and B programs: \$750,000

Auditee qualified as low-risk auditee? ☒ yes ☐ no

Section II - Findings Related to Financial Statements Reported in Accordance With Government Auditing Standards:

No matters reported

Section III - Findings and Questioned Costs Relating to Federal Awards:

No matters reported

Section IV - Summary Schedule of Prior Audit Findings:

Not applicable
