

**Community Health and Social Services
Center, Inc.**

Financial Statements

**September 30, 2022
(With Summarized Comparative Information for 2021)**



YEO & YEO

**BUSINESS SUCCESS
PARTNERS**

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Independent Auditors' Report

Management and Board of Directors
Community Health and Social Services Center, Inc.
Detroit, Michigan

Opinion

We have audited the accompanying financial statements of Community Health and Social Services Center, Inc., which comprise the balance sheet as of September 30, 2022 and the related statements of operations, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Community Health and Social Services Center, Inc. as of September 30, 2022, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Community Health and Social Services Center, Inc. and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards 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, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Community Health and Social Services Center, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregated, that raise substantial doubt about Community Health and Social Services Center, Inc.'s ability to continue as a going concern for a reasonable period of time.

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

Report on Summarized Comparative Information

We have previously audited the Community Health and Social Services Center, Inc.'s 2021 financial statements, and we expressed an unmodified audit opinion on those financial statements in our report dated March 21, 2022. In our opinion, the summarized comparative information presented herein, as of and for the year ended September 30, 2021 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 25, 2023 on our consideration of Community Health and Social Services Center, Inc.'s 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 Community Health and Social Services Center, Inc.'s 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 Community Health and Social Services Center, Inc. internal control over financial reporting and compliance.

Yeo & Yeo, P.C.
Auburn Hills, Michigan
May 25, 2023

Community Health and Social Services Center, Inc.
Balance Sheet
September 30, 2022
(With Summarized Comparative Information for 2021)

	Without Donor Restrictions	With Donor Restrictions	Total	
			2022	2021
Assets				
Current assets				
Cash and cash equivalents	\$ 2,505,938	\$ 406,500	\$ 2,912,438	\$ 3,481,104
Grants receivable	743,325	37,500	780,825	846,399
Patient receivables	953,492	-	953,492	504,130
Third party cost settlements receivable	468,400	-	468,400	259,537
Prepaid expenses and other	133,127	-	133,127	156,912
Total current assets	4,804,282	444,000	5,248,282	5,248,082
Investment in MCHN	327,330	-	327,330	-
Property and equipment, net	10,754,351	-	10,754,351	11,124,905
Total assets	\$ 15,885,963	\$ 444,000	\$ 16,329,963	\$ 16,372,987
Liabilities and net assets				
Current liabilities				
Accounts payable	\$ 384,719	\$ -	\$ 384,719	\$ 164,477
Accrued compensation	523,365	-	523,365	686,725
Third party cost settlements payable	30,738	-	30,738	90,756
Deferred revenue	37,739	-	37,739	24,032
Refundable advances	142,156	-	142,156	150,896
Total current liabilities	1,118,717	-	1,118,717	1,116,886
Net assets				
Without donor restrictions				
Undesignated	14,767,246	-	14,767,246	14,935,432
With donor restrictions				
Purpose restrictions	-	444,000	444,000	320,669
Total net assets	14,767,246	444,000	15,211,246	15,256,101
Total liabilities and net assets	\$ 15,885,963	\$ 444,000	\$ 16,329,963	\$ 16,372,987

See Accompanying Notes to the Financial Statements

Community Health and Social Services Center, Inc.
Statement of Operations
Year Ended September 30, 2022
(With Summarized Comparative Information for 2021)

	Without Donor Restrictions	With Donor Restrictions	Total	
			2022	2021
Operating revenue				
Patient service revenue	\$ 4,888,000	\$ -	\$ 4,888,000	\$ 3,428,186
Federal grants	5,340,973	-	5,340,973	6,537,299
State and local grants	1,240,831	40,000	1,280,831	1,438,860
Contributions	150,984	150,000	300,984	255,348
Contributed nonfinancial assets	21,703	-	21,703	29,802
Interest	692	-	692	1,443
Other revenue	68,634	-	68,634	167,298
Equity in undistributed income in MCHN	327,330	-	327,330	-
Net assets released from restrictions	66,669	(66,669)	-	-
Total operating revenue	12,105,816	123,331	12,229,147	11,858,236
Operating expenses				
Program services	9,816,342	-	9,816,342	9,295,381
Management and general	2,446,041	-	2,446,041	2,507,507
Fundraising	11,619	-	11,619	46,987
Total expenses	12,274,002	-	12,274,002	11,849,875
Change in net assets	(168,186)	123,331	(44,855)	8,361
Net assets, beginning of year	14,935,432	320,669	15,256,101	15,247,740
Net assets, end of year	<u>\$ 14,767,246</u>	<u>\$ 444,000</u>	<u>\$ 15,211,246</u>	<u>\$ 15,256,101</u>

See Accompanying Notes to the Financial Statements

Community Health and Social Services Center, Inc.
Statement of Functional Expenses
Year Ended September 30, 2022
(With Summarized Comparative Information for 2021)

	Program Services	Management and General	Fundraising	Total	
				2022	2021
Salaries and wages	\$ 4,706,894	\$ 1,368,729	\$ -	\$ 6,075,623	\$ 5,772,328
Payroll taxes	389,951	102,608	-	492,559	458,708
Employee benefits	1,149,175	373,390	-	1,522,565	1,441,308
Total salaries and benefits	6,246,020	1,844,727	-	8,090,747	7,672,344
Contracted services	1,545,811	19,291	-	1,565,102	1,699,228
Supplies and materials	909,661	-	-	909,661	755,127
Equipment and maintenance	360,537	77,179	-	437,716	403,242
Dues and subscriptions	3,040	34,394	-	37,434	35,024
Office	131,937	65,252	1,589	198,778	183,959
Insurance	3,478	78,999	-	82,477	74,600
Professional fees	4,889	132,967	-	137,856	60,357
Utilities and telephone	161,190	42,848	-	204,038	173,631
Travel	15,572	3,996	-	19,568	23,127
Rent	42,330	20,082	-	62,412	60,640
Conferences and training	44,659	28,357	-	73,016	47,677
Marketing and development	3,741	7,808	10,030	21,579	48,558
Interest	-	415	-	415	4,637
Depreciation	302,988	80,541	-	383,529	423,705
Other expenses	40,489	9,185	-	49,674	184,019
Total expense	\$ 9,816,342	\$ 2,446,041	\$ 11,619	\$ 12,274,002	\$ 11,849,875

See Accompanying Notes to the Financial Statements

Community Health and Social Services Center, Inc.
Statement of Cash Flows
Year Ended September 30, 2022
(With Summarized Comparative Information for 2021)

	<u>2022</u>	<u>2021</u>
Cash flows from operating activities		
Change in net assets	\$ (44,855)	\$ 8,361
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	383,529	423,705
Forgiveness of PPP loan	-	(400,000)
Provision for bad debts	174,744	848,522
Equity in indistributed income in MCHN	(327,330)	-
(Increase) decrease in:		
Grants receivable	65,574	613,032
Patient receivables	(624,106)	(687,006)
Third party cost settlements receivable	(208,863)	461,909
Prepaid expenses and other	23,785	(19,808)
Increase (decrease) in:		
Accounts payable	220,242	(174,716)
Accrued compensation	(163,360)	83,938
Third party cost settlements payable	(60,018)	90,756
Deferred revenue	13,707	24,032
Refundable advances	(8,740)	57,382
Net cash provided (used) by operating activities	<u>(555,691)</u>	<u>1,330,107</u>
Cash flows from investing activities		
Purchases of property and equipment	(12,975)	-
Cash flows from financing activities		
Repayments of long-term debt	-	(169,466)
Net change in cash and cash equivalents	<u>(568,666)</u>	<u>1,160,641</u>
Cash and cash equivalents, beginning of year	<u>3,481,104</u>	<u>2,320,463</u>
Cash and cash equivalents, end of year	<u><u>\$ 2,912,438</u></u>	<u><u>\$ 3,481,104</u></u>
Supplemental information		
Cash paid for interest	<u><u>\$ 415</u></u>	<u><u>\$ 4,637</u></u>

See Accompanying Notes to the Financial Statements

Community Health and Social Services Center, Inc.
Notes to the Financial Statements
September 30, 2022
(With Summarized Comparative Information for 2021)

Note 1 – Summary of Significant Accounting Policies

Reporting Entity and Corporate Structure

Community Health and Social Services Center, Inc. ("CHASS") was established in 1970 as a Michigan not-for-profit corporation. CHASS is a community-based organization formed to develop, promote and provide comprehensive, accessible and affordable quality primary healthcare and support services to all residents of the community, with special emphasis on the underserved African American and Latino populations. CHASS operates two locations within the city of Detroit, Michigan.

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Basis of Presentation

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

Net assets without donor restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.

Net assets with donor restrictions – Net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

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

Comparative Financial Information

The financial information for the year September 30, 2021 is presented for comparative purposes is not intended to be a complete financial statement presentation.

Cash and Cash Equivalents

The Center considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash and cash equivalents.

The Center maintains deposit accounts in local financial institutions for its cash and cash equivalents, which may at times exceed the FDIC insured limits. The actual bank balance of the Organization's deposits with financial institutions at year end amounted to \$2,937,850, of which \$2,687,519 was uninsured by the FDIC.

Patient Receivables

The collection of receivables from third-party payors and patients is the Center's primary source of cash for operations and is critical to its operating performance. The primary collection risks relate to uninsured patient accounts and patient accounts for which the primary insurance payor has paid, but patient responsibility amounts (deductibles and copayments) remain outstanding. Patient receivables from third-party payors are carried at an amount determined by the original charge for the service provided, less an

Community Health and Social Services Center, Inc.
Notes to the Financial Statements
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estimate made for contractual adjustments or discounts provided to third-party payors.

Receivables due directly from patients are carried at the original charge for the service provided less discounts provided under the Center's charity care policy, less amounts covered by third-party payors and less an estimated uncollectable portion.

Grants Receivable

Grants receivable consists of costs under the grant agreements that were incurred prior to year-end for which payment has not been received. Grants receivable credit risk is limited due to the nature of the grants. The Center regularly monitors its grants receivable by investigating delayed payments and differences when payments do not conform to the amount billed. The Center considers all grants receivable as collectible.

Property and Equipment

The Center follows the practice of capitalizing all expenditures in excess of \$5,000 for property and equipment at cost; the fair value of donated fixed assets is similarly capitalized.

Furniture and equipment are stated at cost or fair market value at the date received. Major improvements are capitalized while ordinary maintenance and repairs are expensed.

The Center evaluates long-lived assets for impairment using a discounted cash flow method whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable in accordance with accounting principles generally accepted in the United States of America.

Depreciation is computed using the straight-line method over the estimated useful lives of the related assets which range from three to 40 years.

Gifts of land, buildings, equipment, and other long-lived assets are also reported as revenue without donor restrictions and net assets, unless subject to time restrictions. Absent explicit donor stipulations for the time long-lived assets must be held, expirations of restrictions resulting in reclassification of net assets with donor restrictions as net assets without donor restrictions are reported when the long-lived assets are placed in service.

Investment in Joint Venture

Investment in the joint venture for Michigan Community Health Network is accounted for using the equity method, whereby the investments are stated at cost adjusted for undistributed earnings or loss since acquisition.

Accrued Vacation

Regular full-time employees receive vacation time annually based on years of service. Vacation accrues each pay period, effective with the date of hire. Union employees are allowed to carryover 25 unused days (200 hours) from one benefit year to another. All other employees are allowed to carry over 50 unused days (400 hours) from one benefit year to another. Upon termination, employees are paid for all accrued but untaken vacation days.

Revenue and Revenue Recognition

Revenue is recognized when earned. Program fees are deferred to the applicable period in which the performance obligations are met. Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met.

Community Health and Social Services Center, Inc.
Notes to the Financial Statements
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(With Summarized Comparative Information for 2021)

Charity Care

The Center provides care to patients who meet certain criteria under its charity care policy at a nominal fee or at amounts less than established rates. The Center charges patients based on a sliding scale fee relative to income levels and other factors. Patients with third-party insurance are charged co-pays and other fees based on the insurance contract provisions, and a patient's fee may be waived for those that do not have the ability to pay. Based on the cost of patient services, charity care amounted to \$850,883 and \$670,285 for the years ended September 30, 2022 and 2021, respectively.

Donated Services and Goods

The Center records the value of donated goods as contributions using estimated fair values at the date of receipt. The Center's policy is to utilize, rather than monetize, donated services and goods.

Contributions of donated services that create or enhance nonfinancial assets or that require specialized skills and would typically need to be purchased if not provided by donation are recorded at their fair values in the period received.

Functional Expenses

The costs of program and supporting services activities have been summarized on a functional basis in the statements of operations. The statement of functional expenses presents the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Payroll taxes and employee benefits are allocated based on actual salaries. Equipment and maintenance, utilities and telephone, and depreciation allocated based on square footage. All other expenses are directly charged.

Income Tax Status

Community Health and Social Services Center, Inc., is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code and, therefore, has made no provision for Federal income taxes in the accompanying financial statements. In addition, the Center has been determined by the Internal Revenue Service not to be a "private foundation" within the meaning of Section 509(a) of the Internal Revenue Code. The Center files information returns in the U.S. Federal and Michigan jurisdiction.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Date of Management's Review

Management has evaluated subsequent events through May 25, 2023, which is the date the financial statements were available to be issued.

Adoption of New Accounting Standards

The Center adopted FASB Topic, *Presentation and Disclosures by Not-For-Profit Entities for Contributed Nonfinancial Assets*, as of the beginning of the year ended September 30, 2022. This was applied on a retrospective basis and resulted in a reclassification of revenue between contributions and contributed nonfinancial assets of \$29,802 for the year ended September 30, 2021.

Community Health and Social Services Center, Inc.
Notes to the Financial Statements
September 30, 2022
(With Summarized Comparative Information for 2021)

Note 2 – Liquidity and Availability

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

	<u>2022</u>	<u>2021</u>
Cash and cash equivalents	\$ 2,508,938	\$ 3,197,935
Grants receivable	743,325	808,899
Patient services receivable	953,492	504,130
Third party cost settlements receivable	-	259,537
	<u>\$ 4,205,755</u>	<u>\$ 4,770,501</u>

The Center strives to maintain an adequate cash reserve. A set amount is not defined, but the Center usually attempts to have cash on hand to cover around 3 months of expenses. The Center also has a \$250,000 line of credit available to meet cash flow needs but has never drawn on it.

Note 3 – Conditional Contributions

During the fiscal year, the Organization received conditional promises to give related to local, state, and federal grants. Payment of the grants is contingent upon spending the funds for the designated allowable purpose and various compliance requirements in accordance with 2 CFR 200 or grant documents. The conditional contributions consisted of the following as of September 30:

	<u>Total Grant</u>	<u>Spent as of September 30, 2022</u>	<u>Conditional Contribution</u>
General healthcare	\$ 3,555,006	\$ 2,137,440	\$ 1,417,566
COVID	3,366,250	1,207,544	2,158,706
Diabetes, digestive, and kidney diseases	1,658,122	1,415,533	242,589
Youth assistance	949,819	672,548	277,271
Legal assistance	1,151,281	629,532	521,749
Culturally specific services	298,685	263,598	29,197
Hypertension control initiative	149,000	97,123	51,877
	<u>\$ 11,128,163</u>	<u>\$ 6,423,318</u>	<u>\$ 4,698,955</u>

Community Health and Social Services Center, Inc.
Notes to the Financial Statements
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Note 4 – Patient Services Receivable

Patient services receivable consists of the following as of September 30:

	<u>2022</u>	<u>2021</u>
Commercial and other	\$ 34,319	\$ 20,617
Medicaid	507,627	265,131
Medicare	104,050	89,739
Self-pay	307,496	128,643
	<u>\$ 953,492</u>	<u>\$ 504,130</u>

Note 5 – Third Party Cost Settlements

Third party cost settlements receivable by settlement year are as follows at September 30:

<u>Year Ended</u>	<u>2022</u>	<u>2021</u>
2017	\$ -	\$ 15,210
2018	(30,738)	-
2020	-	237,217
2021	-	(83,646)
2022	468,400	-
	<u>\$ 437,662</u>	<u>\$ 168,781</u>

Third-party cost settlements consist of the following receivable and payable on the balance sheet:

	<u>2022</u>	<u>2021</u>
Third party cost settlements receivable	\$ 468,400	\$ 259,537
Third party cost settlements payable	(30,738)	(90,756)
	<u>\$ 437,662</u>	<u>\$ 168,781</u>

Note 6 – Property and Equipment

Property and equipment, net, consists of the following as of September 30:

	<u>2022</u>	<u>2021</u>
Land and land improvements	\$ 1,615,822	\$ 1,615,822
Leasehold improvements	45,441	45,441
Building and building improvements	12,988,635	12,988,635
Equipment and fixtures	2,066,370	2,053,395
	16,716,268	16,703,293
Less accumulated depreciation	(5,961,917)	(5,578,388)
	<u>\$ 10,754,351</u>	<u>\$ 11,124,905</u>

Property acquired with federal funds is considered to be owned by the program while used in the project for which it was purchased or in future authorized projects. The United States Government has a reversionary interest in the property and any proceeds received upon disposition are subject to Federal regulations. As of September 30, 2022 and 2021, the net value of property that the government has a reversionary interest is \$70,185 and \$74,421, respectively.

Community Health and Social Services Center, Inc.
Notes to the Financial Statements
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(With Summarized Comparative Information for 2021)

Note 7 – Investment in MCHN

The Center has a 2.9% membership in Michigan Community Health Network, LLC (the Network or MCHN), a for-profit organization comprised of 34 member organizations as a clinically integrated network. The Network and its operations are governed by a board of managers elected by its members, 33 community health centers and the Michigan Primary Care Association.

Note 8 – Operating Leases

The Center has operating lease agreements for clinic and administrative office space to provide services to its patients. Total rental expense related to the building leases was \$34,361 and \$33,156 for the years ended September 30, 2022 and 2021, respectively.

Future minimum payments required under the operating leases as of September 30, 2022 are as follows:

<u>Year Ending</u>	<u>Amount</u>
2023	\$ 33,491
2024	30,788
2025	24,132
2026	18,329
2027	13,747
	<u>\$ 120,487</u>

Note 9 – Line of Credit

The Center has established a line of credit in the amount of \$250,000, bearing interest at 2.00% plus prime. The rate at September 30, 2022 was 5.25%. The Center's balance on the line of credit was \$0 as of September 30, 2022 and 2021.

Note 10 – Net Assets With Donor Restrictions

Net assets with donor restrictions are restricted for the following purposes and periods at September 30:

	<u>2022</u>	<u>2021</u>
Subject to expenditure for specified purpose:		
Telehealth	\$ -	\$ 5,458
Fresh prescription	24,989	86,200
Oral health integration	15,000	15,000
Mammography	239,011	199,011
Doula program	150,000	-
COVID wellness and resiliency	15,000	15,000
Total net assets with donor restrictions	<u>\$ 444,000</u>	<u>\$ 320,669</u>

Community Health and Social Services Center, Inc.
Notes to the Financial Statements
September 30, 2022
(With Summarized Comparative Information for 2021)

Note 11 – Net Assets Released from Donor Restrictions

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of the passage of time or other events specified by the donors as follows for the years ended September 30, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Satisfaction of purpose restrictions		
Telehealth	\$ 5,458	\$ 724
COVID relief	-	21,590
Fresh prescription	<u>61,211</u>	<u>9,523</u>
 Total net assets released from donor restrictions	 <u>\$ 66,669</u>	 <u>\$ 31,837</u>

Note 12 – Revenue from Contracts with Customers

The following summarizes revenue by type for the year ended September 30, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Revenue from contracts with customers	\$ 5,877,815	\$ 4,621,124
Federal grants	5,340,973	6,137,299
State and local grants	346,945	407,844
Contributions	300,984	655,348
Contributed nonfinancial assets	21,703	29,802
Equity in investment in MCHN	327,330	-
Interest	692	1,443
Other revenue	<u>12,705</u>	<u>5,376</u>
	<u>\$ 12,229,147</u>	<u>\$ 11,858,236</u>

Bad debt expense as a result of impairment loss on receivables and contract assets on contracts with customers was \$174,744 and \$848,522 for the years ended September 30, 2022 and 2021, respectively.

The revenue from contracts with customers for the years ended September 30:

	<u>2022</u>	<u>2021</u>
Revenue earned at point in time	\$ 5,740,456	\$ 4,422,364
Revenue earned over time	<u>137,359</u>	<u>198,760</u>
 Total revenue from contracts with customers	 <u>\$ 5,877,815</u>	 <u>\$ 4,621,124</u>

All revenue from contracts with customers is earned at a point in time. Net patient service revenues are reported at the amounts that reflect the consideration to which the Center expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payers (including managed care payers and government programs) and others, and they include variable consideration for retroactive revenue adjustments due to settlement of audits, reviews, and investigations. Generally, the Center bills patients and third-party payers several days after the services are performed. Revenues are recognized as performance obligations are satisfied. Revenue is recognized for performance obligations satisfied at a point in time, which generally relate to patients receiving outpatient services, when the services are provided. The transaction price is determined based on gross charges for services provided, reduced by contractual adjustments provided to third-party payers, discounts provided to uninsured patients in accordance with the Center's contracts, and implicit price concessions provided primarily to uninsured patients. Estimates of contractual adjustments and discounts are based on contractual agreements, discount policies and historical experience. The estimate of implicit price concessions is determined based on the historical collection experience with these

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classes of patients using a portfolio approach as a practical expedient to account for patient contracts as collective groups rather than individually. The financial statement effects of using this practical expedient are not materially different from an individual contract approach. Gross charges are retail charges. They are not the same as actual pricing, and they generally do not reflect what the Center is ultimately paid and, therefore, are not displayed in the statement of operations. The Center is typically paid amounts that are negotiated with insurance companies or are set by the government. Gross charges are what the Center charges all patients prior to the application of discounts and allowances.

Revenues under the traditional fee-for-service Medicare and Medicaid programs are based primarily on prospective payment systems. Retrospectively determined cost-based revenues under these programs, which are based on cost reports, are estimated using historical trends and current factors. Cost report settlements under these programs are subject to audit by Medicare and Medicaid auditors and administrative and judicial review, and it can take several years until final settlement of such matters is determined and completely resolved. Because the laws, regulations, instructions, and rule interpretations governing Medicare and Medicaid reimbursement are complex and change frequently, the estimates recorded could change by material amounts. The Center has a system and estimation process for recording Medicaid net patient service revenue and estimated cost report settlements. As a result, accruals are recorded to reflect the expected final settlements on the cost reports. For filed cost reports, accruals are recorded based on those cost reports and subsequent activity, and a valuation allowance is recorded against those cost reports based on historical settlement trends. The accrual for periods for which a cost report is yet to be filed is recorded based on estimates of what the Center expects to report on the filed cost reports, and a corresponding valuation allowance is recorded as previously described. Cost reports generally must be filed within five months after the end of the annual cost reporting period. After the cost report is filed, the accrual and corresponding valuation allowance may

need to be adjusted. Settlements with third-party payers 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 using the most likely outcome method. These settlements are estimated based on the terms of the payment agreement with the payer, correspondence from the payer and the historical settlement activity. 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.

The Center also contracts with third-party pharmacies to serve its patients using 340b pricing. Revenues are recognized as performance obligations are satisfied. Revenue is recognized for performance obligations satisfied at a point in time, which generally relate to the prescription being filled and delivered to the patient. The transaction price is determined by the amount reimbursed from the payer or patient, less the cost of the drug and pharmacy and administrator fees. Some contract relationships report revenue after each sale, regardless of the number of prescriptions supplied from a bottle, while others report revenue when the drugs are physically replaced.

Under certain contracts, incentive payments are available to the Center when they adopt, implement, or upgrade certified electronic health record (“EHR”) technology or become “meaningful users” as defined in ways that demonstrate improved quality, safety, and effectiveness of care. In addition, incentive payments are available when certain procedures and benchmarks are met in accordance with insurance contracts. The Center recognizes incentive payments as part of meaningful use revenue and patient revenue in the statement of operations when the specified meaningful use criteria or procedures and benchmarks are met, which is typically not known until payment is received.

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The Center has as contract with a local university for residents. Revenue is recognized as performance obligations are satisfied. Revenue is recognized for performance obligations satisfied over time, which generally relates to residents working the length of their contract. The transaction price is determined by the amount set in the contract recognized on a monthly basis. Revenue received for which performance obligations have not been met is deferred until earned.

The Organization has various service contracts in which it must perform a defined scope of work per the contract. Revenue is recognized as performance obligations are satisfied. Revenue is recognized for performance obligations satisfied at a point in time when milestones or expenses are incurred for some contracts. For other contracts, the revenue is recognized over time during the period of the contract term as services are available as defined. The transaction price is determined by the amount set in the contract. Revenue received for which performance obligations have not been met is deferred until earned.

The following summarizes contract assets and liabilities as of September 30:

	September 30, 2022	September 30, 2021	October 1, 2020
Contract assets			
Grants receivable	\$ 119,515	\$ 123,560	\$ -
Patient receivables	953,492	504,130	665,646
Third party cost settlements receivable	468,400	259,537	721,446
Total contract assets	\$ 1,541,407	\$ 887,227	\$ 1,387,092
Contract liabilities			
Deferred revenue	\$ 37,739	\$ 24,032	\$ -
Third party cost settlements payable	30,738	90,756	-
Total contract liabilities	\$ 68,477	\$ 114,788	\$ -

There were no changes in judgments related to revenue recognition for the years ended September 30, 2022 and 2021.

Note 13 – Contributed Nonfinancial Assets

Contributed nonfinancial assets for the years ended September 30, 2022 and 2021 consisted of medical supplies. The medical supplies had no associated restrictions and were used for general healthcare. The total value of the items received was \$21,703, and \$29,802 for the years ended September 30, 2022 and 2021 respectively. The fair value was estimated based on the cost of similar items in the local market.

The Center also received volunteer services for the management and operation of the organization that did not meet the criteria to be recorded. Total volunteers were 71 and 38 for the years ended September 30, 2022 and 2021, respectively.

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Note 14 – Federally Qualified Health Center Status

Community Health and Social Services Center, Inc. qualifies as a Federally Qualified Health Center (*FQHC*) under provisions of the Omnibus budget Reconciliation Act of 1989 and 2000. Beginning January 1, 2001, the Medicaid program changed from reimbursing full reasonable costs of services provided to a prospective payment system which pays a fixed amount per encounter. The initial fixed amount for 2001 was based on the Center's average cost per encounter from 1999 and 2000. The fixed amount is to be increased by a Medicaid economic indicator annually thereafter.

Final settlements are determined after submission of the annual cost report by the Center and reviewed by the appropriate fiscal intermediary.

Note 15 – Retirement Plan

The Center has a 403(b)-thrift plan that covers all full-time employees, who are eligible to make contributions to the plan up to a maximum allowed by law. The Center's total contributions to the plan the year ended September 30, 2022 and 2021 were \$191,106 and \$203,022, respectively.

Note 16 – Medical Malpractice Coverage

The Center maintains its medical malpractice coverage under the Federal Tort Claims Act ("FTCA"). FTCA provides malpractice coverage to eligible PHS-supported programs and applies to the Center and its employees while providing services within the scope of employment included under grant-related activities. The Attorney General, through the U.S. Department of Justice, has the responsibility for the defense of the individual and/or grantee for malpractice cases approved for FTCA coverage.

Note 17 – Commitments and Contingencies

The Center has contracted with various funding agencies to perform certain healthcare services, and receives Medicaid and Medicare revenue from federal, state, and local governments. Reimbursements received under these contracts and payments from Medicaid and Medicare are subject to audit by federal, state, and local governments and other agencies. Upon audit, if discrepancies are discovered, the Center could be held responsible for refunding the amounts in question.

Amounts received or receivable from grantor agencies are subjected to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of costs which may be disallowed by the grantor cannot be determined at this time although the Center expects such amounts, if any, to be immaterial.

Note 18 – Related Party

A board member is an executive for Henry Ford Health System which has a contractual relationship with the Center. The total amounts paid to Henry Ford Health System during the years ended September 30, 2022 and 2021 were \$1,286,063 and \$1,238,442, respectively. There were also payable balances to Henry Ford of \$252,165 and \$104,222 as of September 30, 2022 and 2021, respectively.

Note 19 – Labor Union

At September 30, 2022 and 2021, 43 and 41 of the Center's hourly employees were represented by a union, respectively. None of its salaried employees are represented by a union. The existing union agreement expires on December 31, 2022.