



CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

PORTER-STARKE SERVICES, INC.

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REPORT OF INDEPENDENT AUDITORS

Board of Directors
Porter-Starke Services, Inc.
Valparaiso, Indiana

We have audited the accompanying consolidated financial statements of Porter-Starke Services, Inc. (the Center), which comprise the consolidated balance sheets as of June 30, 2021 and 2020, 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.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits 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 *Uniform Compliance Guidelines for Examination of Entities Receiving Financial Assistance from Governmental Sources*, issued by the Indiana State Board of Accounts. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Center's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Center's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Board of Directors
Porter-Starke Services, Inc.
Valparaiso, Indiana

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Center as of June 30, 2021 and 2020, 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 5, 2021, on our consideration of the Center'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 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 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 the Center's internal control over financial reporting and compliance.

Blue & Co., LLC

Indianapolis, Indiana
October 5, 2021

PORTER-STARKE SERVICES, INC.

CONSOLIDATED BALANCE SHEETS
JUNE 30, 2021 AND 2020

	ASSETS	
	2021	2020
Current assets		
Cash	\$ 12,366,824	\$ 9,774,276
Investments	7,951,368	6,738,462
Patient accounts receivable	1,205,494	1,202,487
Other receivables	1,841,030	1,737,417
Prepaid expenses	378,183	396,854
Total current assets	23,742,899	19,849,496
Other assets		
Notes receivable	899,158	999,951
Accrued interest receivable	34,400	35,293
Funds held by community foundation	41,813	31,629
Property and equipment, net	7,667,150	7,181,253
Deferred compensation	2,426,306	1,609,321
Total other assets	11,068,827	9,857,447
Total assets	<u>\$ 34,811,726</u>	<u>\$ 29,706,943</u>
LIABILITIES AND NET ASSETS		
Current liabilities		
Current portion of long-term debt	\$ 69,710	\$ 1,254,599
Accounts payable and accrued liabilities	564,843	455,864
Accrued payroll and related withholdings	2,003,960	1,666,293
Accrued profit sharing and 401(k) plan	514,922	465,159
Estimated third-party settlements	830,832	1,049,812
Total current liabilities	3,984,267	4,891,727
Long-term liabilities		
Deferred compensation	2,426,306	1,609,321
Derivative liability	8,164	21,037
Notes payable	899,158	999,951
Accrued interest payable	34,400	35,293
Long-term debt, net of current portion	673,858	2,224,679
Total long-term liabilities	4,041,886	4,890,281
Total liabilities	8,026,153	9,782,008
Net assets without donor restrictions	26,785,573	19,924,935
Total liabilities and net assets	<u>\$ 34,811,726</u>	<u>\$ 29,706,943</u>

See accompanying notes to consolidated financial statements.

PORTER-STARKE SERVICES, INC.**CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS**
YEARS ENDED JUNE 30, 2021 AND 2020

	2021	2020
Revenue, gains and other support		
Patient service revenue	\$ 16,208,016	\$ 14,382,845
Public support		
Federal, state and other funds	9,455,094	6,814,688
County funds	2,589,068	2,475,278
Contributions	105,961	96,071
Total public support	12,150,123	9,386,037
Other revenues and gain (loss)		
Investment return, net	1,259,535	69,583
Rental income	232,842	236,442
Loss on disposal of property	-0-	(2,898)
Unrealized gain (loss) on derivative	12,873	(7,750)
Indiana Funds Recovery Program	1,395,040	1,159,018
Forgiveness of note payable	2,666,000	-0-
Other	392,538	765,896
Total other revenues and gain	5,958,828	2,220,291
Total revenues, gains and support	34,316,967	25,989,173
Expenses		
Salaries and related expenses	20,165,827	17,483,994
Operating	6,109,103	5,921,088
Depreciation	641,065	645,160
HAF and HIP programs	514,819	634,714
Interest	25,515	32,011
Total expenses	27,456,329	24,716,967
Excess revenue, gains and other support over expenses/change in net assets without donor restrictions	6,860,638	1,272,206
Net assets		
Beginning of year	19,924,935	18,652,729
End of year	\$ 26,785,573	\$ 19,924,935

See accompanying notes to consolidated financial statements.

PORTER-STARKE SERVICES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2021 AND 2020

	2021	2020
Operating activities		
Change in net assets	\$ 6,860,638	\$ 1,272,206
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation	641,065	645,160
Loss on disposal of property	-0-	2,898
Unrealized (gain) loss on derivative	(12,873)	7,750
Realized and unrealized (gain) loss on investments	(1,046,487)	177,119
Forgiveness of Paycheck Protection Program (PPP) note payable	(2,666,000)	-0-
Change in funds held by community foundation	(10,184)	(5,352)
Changes in operating assets and liabilities		
Patient accounts receivable	(3,007)	338,727
Other receivables	(103,613)	39,051
Prepaid expenses	18,671	(78,524)
Accrued interest receivable	893	(939)
Deferred compensation and other	(816,985)	(62,121)
Accounts payable and accrued liabilities	108,979	81,677
Accrued payroll and related withholdings	337,667	313,506
Accrued profit sharing and 401(k) plan	49,763	(6,207)
Contract liabilities	-0-	(13,700)
Estimated third-party settlements	(218,980)	241,541
Accrued interest payable	(893)	939
Deferred compensation	816,985	62,121
Net cash flows from operating activities	3,955,639	3,015,852
Investing activities		
Proceeds from notes receivable	100,793	119,049
Purchase of property and equipment	(1,126,963)	(799,075)
Purchase of investments	(8,813,574)	(1,699,003)
Proceeds from sale of investments	8,647,155	1,502,371
Net cash flows from investing activities	(1,192,589)	(876,658)
Financing activities		
Payments on notes payable	(100,793)	(104,049)
Principal payments on long-term debt	(69,709)	(69,709)
Proceeds from long-term debt	-0-	2,666,000
Net cash flows from financing activities	(170,502)	2,492,242
Change in cash	2,592,548	4,631,436
Cash		
Beginning of year	9,774,276	5,142,840
End of year	\$ 12,366,824	\$ 9,774,276
Supplemental disclosure of cash flows		
Cash paid for interest	\$ 26,408	\$ 31,072
Noncash financing - forgiveness of PPP note payable	\$ 2,666,000	\$ -0-

See accompanying notes to consolidated financial statements.

PORTER-STARKE SERVICES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2021 AND 2020

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Porter-Starke Services, Inc. (the Center) is responsible for the operation and maintenance of a comprehensive community mental health center that focuses on the treatment and prevention of mental illness, chemical dependency and addictions. These services are provided to children and adults upon admission or referral. The Center employs qualified psychiatrists, psychologists, social workers and others to consult with and treat individuals and families. These services are currently delivered through community locations in Valparaiso, Portage, Knox, and La Porte, Indiana and include: inpatient services, outpatient treatment including individual, group and family therapy, psychiatric services including medication management, consultation, 24-hour services, chemical dependency and addictions services, methadone clinic, community education, residential services for several populations, treatment programs for elementary and secondary students, employee assistance programming, experiential therapy, corporate training and team building programs, jail diversion and therapeutic services. In 2020, the methadone clinic added a La Porte location to help more people recover from opioid use.

The Center operates a federally qualified health center, Marram Health Center (Marram), located in Gary and in Hebron, Indiana. Marram provides integrated primary and behavioral healthcare that includes adult and child primary care, dental, medication management, health insurance enrollment and community outreach services. In 2019, Marram opened an office location in Hebron, helping improve access to healthcare in rural communities.

Porter-Starke Services Foundation, Inc. (the Foundation), an affiliate of the Center, is a not-for-profit corporation dedicated to promoting and supporting the mental health and substance abuse treatment needs of the people of Northwest Indiana through comprehensive fundraising efforts.

Principles of Consolidation

The accompanying consolidated financial statements include accounts of the Center and the Foundation. All material intercompany balances and transactions have been eliminated in consolidation. Because the Board of Directors of the Center appoints the Foundation's Board of Directors and economic interest exists, the results of these entities have been consolidated. As a result of this consolidation, the net assets of the Center include approximately \$1,159,000 and \$1,063,000 as of June 30, 2021 and 2020, respectively, of net assets of the Foundation.

The accompanying consolidated financial statements also include the Center's majority-owned (51% ownership) subsidiary, PSSHOI-Aurora View, LLC (the LLC). The LLC is the general partner (.01% ownership) in the limited partnership, Aurora View, L.P. (the L.P.), which provides low income housing. The activities and balances of the LLC, while insignificant to the consolidated financial statements as a whole, are consolidated herein. The limited partners of the L.P. (99.99% ownership) maintain substantive participation rights in the L.P.. Therefore, the activities of the L.P. are not consolidated with the LLC and ultimately not consolidated with the Center.

PORTER-STARKE SERVICES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2021 AND 2020

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. Actual results could differ from those estimates.

Cash

Cash includes checking, savings and money market deposit accounts. At times, balances may exceed federally insured limits. The Center believes it is not exposed to any significant credit risk on cash.

Investments and Investment Income

Investments consist of mutual funds and are reported at fair value based on the securities' market price. Investment income includes interest, dividends, and changes in the fair value of investments and is reported under other revenue and gain (loss) in the consolidated statements of operations and changes in net assets. Investment income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date.

Patient Accounts Receivable

Patient accounts receivable are recorded at the 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 accounts receivable can be impacted by the effectiveness of the Center'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 accounts receivable. The Center also continually reviews the net realizable value of accounts receivable by monitoring historical cash collections as a percentage of trailing net operating revenues, as well as by analyzing current period net revenue and admissions by payor classification, aged accounts receivable 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 and the impact of recent acquisitions and dispositions. Patient accounts receivable were approximately \$1,541,000 as of July 1, 2019.

PORTER-STARKE SERVICES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2021 AND 2020

Revenue under third-party agreements is subject to audit and retroactive adjustment. The ultimate legal and financial liability of the Center with respect to future audits by third-party payors cannot be estimated with any certainty. Given the current regulatory and reimbursement environment, there can be no assurances that adequate reimbursement levels will continue to be available for the services provided by the Center. Significant limits on the scope of services reimbursed and on reimbursement rates and fees could have a material adverse effect on the Center's liquidity, financial position, results of operations and cash flows.

Patient Service Revenue

Patient service revenue is reported at the amount that reflects the consideration to which the Center 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, the Center 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 the Center. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected (or actual) charges. The Center 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. The Center measures the performance obligation from admission into the Center, 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 the Center 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, the Center 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.

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

PORTER-STARKE SERVICES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2021 AND 2020

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.
- Other - Payment agreements with 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

The Center 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 (DSH) payments for Indiana hospitals as reflected in the HAF and HIP programs 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), 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. During 2021 and 2020, the Center recognized expense for the HAF and HIP programs of approximately \$515,000 and \$635,000, respectively, which resulted in Medicaid rate increases.

The expense for the HAF and HIP programs is included 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. During 2021 and 2020, the Center recognized revenue of \$-0- and approximately \$193,000, respectively, related to Medicaid DSH payments.

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 the Center'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 the Center. In addition, the contracts the Center has with commercial payors also provide for retroactive audit and review of claims.

PORTER-STARKE SERVICES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2021 AND 2020

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 the Center'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 the Center's mission, care is provided to patients regardless of their ability to pay. Therefore, the Center has determined it has provided implied price concessions to uninsured patients and other uninsured balances (for example, copays and deductibles). The implied price concessions included in estimating the transaction price represents the difference between amounts billed to patients and the amounts the Center expects to collect based on its collection history with those patients. Patients who meet the Center'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. The Center also provides services to uninsured patients and offers those uninsured patients a discount, either by policy or law, from standard charges. The Center 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 implied 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.

The Center 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)
- The Center'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 2021 and 2020, the Center recognized revenue of approximately \$16,208,000 and \$14,383,000 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.

PORTER-STARKE SERVICES, INC.NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

A summary of patient service revenue for 2021 and 2020 follows:

	2021	2020
Service charges		
Inpatient	\$ 3,446,895	\$ 3,351,022
Day treatment	994,744	1,666,564
Outpatient	16,554,817	14,545,412
Residential and case management	2,918,050	3,154,501
	23,914,506	22,717,499
Charity care and contractual adjustments	(7,463,351)	(7,752,987)
	16,451,155	14,964,512
Implicit price concessions	(243,139)	(581,667)
Patient service revenue	<u>\$ 16,208,016</u>	<u>\$ 14,382,845</u>

A summary of patient service revenue by payor type and service line for 2021 and 2020 follows:

	2021	2020
Payor type		
Medicaid	\$ 10,535,211	\$ 9,348,849
Medicare	1,458,721	1,294,456
Other third party-payors	2,917,443	2,445,084
Self-pay	1,296,641	1,294,456
	<u>\$ 16,208,016</u>	<u>\$ 14,382,845</u>
Service line		
Inpatient	\$ 1,805,347	\$ 1,791,688
Day treatment	499,220	374,856
Outpatient	12,491,145	10,713,424
Residential and case management	1,412,304	1,502,877
	<u>\$ 16,208,016</u>	<u>\$ 14,382,845</u>

Charity Care

In accordance with its grant requirements and state regulations, the Center provides services to patients and charges them based on their ability to pay according to a co-pay schedule. The Center maintains records to identify and monitor the level of charges foregone for services and supplies furnished under the charity care policy, the estimated cost of those services, and equivalent service statistics. Amounts for foregone charges related to charity care for 2021 and 2020 totaled approximately \$835,000 and \$1,970,000, respectively. The charity care amounts are not reported as patient service revenue as the Center does not pursue collection. During 2021 and 2020, the Center did not change its policies and procedures related to patient services for charity care.

PORTER-STARKE SERVICES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2021 AND 2020

Of the Center's total operating expense reported without donor restriction, an estimated \$959,000 and \$2,143,000 arose from providing services to charity patients during 2021 and 2020, 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 the Center's expenses to gross patient service revenue.

Other Receivables

Other accounts receivable 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 for community health services, Porter County for county tax receipts to support community health services and the Medicaid program for estimated rate differences related to certain primary care services. See the "Public Support" section of this Note for further information. The other accounts receivable is classified as current as they are expected to be collected during the next fiscal year.

Notes Receivable

The Center passed through certain funds to the L.P. and established notes receivable for these funds. The notes receivable are stated at the amount management expects to collect from balances outstanding at year-end. Based upon management's assessment of the credit history with the L.P. and its current relationship, it has concluded that realized losses on these balances outstanding at year end are not significant.

Funds Held by Community Foundation

Funds held by community foundation include funds internally designated for specific purposes by the Foundation. The Foundation transferred funds to the Porter County Community Foundation for investment purposes. The Foundation receives income generated from the investment.

Property, Equipment and Depreciation

Property and equipment are stated at cost, or if donated, at fair market value at the date of donation, and include expenditures for new additions and repairs which substantially increase the useful lives of existing property and equipment. Maintenance, repairs and minor renewals are expensed as incurred. When properties are retired or otherwise disposed of, the related cost and accumulated depreciation are removed from the accounts and any resulting gain or loss for the period is recognized. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method over 5 to 40 years.

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 audit results.

PORTER-STARKE SERVICES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2021 AND 2020

Public Support

The Center 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 the Center as prescribed by these programs and funds may be subject to repayment upon a determination of noncompliance made by a funding agency. Furthermore, the Center has a contract with DMHA to provide community mental health services. The State of Indiana has a performance-based reimbursement system. Under this program, the Center 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 the Center 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 balance sheets. As of June 30, 2021 and 2020, the Center recognized refundable advances of \$-0- and approximately \$325,000, respectively, which are included in estimated third-party settlements on the consolidated balance sheet. In addition, as of June 30, 2021 and 2020, the Center recognized receivables from these programs of \$248,000 and \$335,000, respectively, which are included in other receivables on the consolidated balance sheets.

Indiana state law stipulates that the counties served by comprehensive community mental health centers provide the centers a minimum designated amount per the county assessed value growth quotient determined by the Department of Local Government Finance. Tax receipts are designated to be remitted to the centers by June and December of each year. The Center 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.

The Center 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 Center derives a significant portion of its revenue from third-party payors and federal and state funding programs. The receipt of future revenues by the Center 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.

Net Assets

The accompanying consolidated financial statements have been prepared on the accrual basis, and have been prepared with a focus on the entity as a whole. Net assets, support, revenues, gains, and losses are classified based upon the existence or absence of donor imposed restrictions. Accordingly, the net assets of the Center are classified and reported as follows:

- Net assets without donor restrictions: Net assets that are currently available for operating purposes under the direction of the board or designated by the Center for specific use.

PORTER-STARKE SERVICES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2021 AND 2020

- Net assets with donor restrictions: Net assets subject to donor stipulations for specific operating purposes or time restrictions. These include donor restrictions requiring the net assets be held in perpetuity or for a specified term with investment return available for operations or specific purposes.

Contributions

Contributions received are recorded as without donor restrictions or with donor restrictions, depending on the existence and/or nature of any donor restrictions. The Center recognizes all contributions as income in the period received. All contributions are considered to be available for use 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 donor 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 with donor-imposed restrictions that are met during the same year as the contribution is made are included in changes in net assets without donor restrictions.

The Center also evaluates 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 balance sheet 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 financial statements at their estimated fair market values on the date received.

The value of donated volunteer services is not reflected in the accompanying consolidated financial statements since there is no objective basis available by which to measure the value of such services. However, a substantial number of volunteers have donated significant amounts of their time to various fund-raising events and contacts with individuals receiving services at the Center.

Performance Indicator

The consolidated statements of operations and changes in net assets include a performance indicator, excess revenues, gains and other support over expenses. Changes in net assets without donor restrictions, which are excluded from the performance indicator, consistent with industry practice, include contributions with donor restrictions and contributions of long-lived assets with donor restrictions.

Income Taxes

The Center and the Foundation are organized as not-for-profit corporations under Section 501(c)(3) of the United States Internal Revenue Code. As such, the Center and Foundation are generally exempt from income taxes. However, the Center and Foundation are required to file Federal Form 990 – Return of Organization Exempt from Income Tax, which is an informational return only.

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Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Center and the Foundation and recognize a tax liability if the Center and Foundation 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 the Center and the Foundation, and has concluded that as of June 30, 2021 and 2020, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the accompanying consolidated financial statements.

The Center and Foundation filed their federal and state income tax returns for periods through June 30, 2020. 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). The Center and Foundation are subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

The LLC is organized as a limited liability company, whereby net taxable income is taxed directly to the owners of the LLC. Tax filings for the LLC are current as of June 30, 2021.

Advertising Costs

The Center expenses advertising costs as they are incurred. Advertising costs during 2021 and 2020 were approximately \$141,000 and \$70,000, respectively.

Going Concern Evaluation

Management evaluated whether there are conditions or events that raised substantial doubt about the Center's 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.

Subsequent Events

The Center evaluated events or transactions occurring subsequent to balance sheet 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 5, 2021.

Upcoming Accounting Standards Updates

In February 2016, FASB issued ASU No. 2016-02, *Leases (Topic 842)*. This standard, which the Center is not required to adopt until its year ending June 30, 2023, is intended to improve financial reporting about leasing transactions by requiring entities that lease assets to recognize on their balance sheet 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 the ASU) of twelve months or less are not required to be reflected on an entity's balance sheet.

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In September 2020, FASB issued ASU No. 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. This ASU is intended to increase transparency around contributed nonfinancial assets (also known as "gifts-in-kind") received by not-for-profit (NFP) organizations, including information on how those assets are used and how they are valued. This ASU requires that a NFP organization present contributed nonfinancial assets as a separate line item in its statement of operation and changes in net assets, apart from contributions of cash or other financial. Additionally, this ASU includes expanded disclosure requirements. The Center will be required to adopt this standard during its year ending June 30, 2022.

The Center is presently evaluating the effects that these ASUs will have on its future consolidated financial statements, including related disclosures.

2. INVESTMENTS

Investments consist of mutual funds at fair value of approximately \$7,951,000 and \$6,738,000 as of June 30, 2021 and 2020, respectively. The following is a summary of investment return for 2021 and 2020:

	2021	2020
Interest and dividends	\$ 227,275	\$ 268,038
Realized and unrealized gain (loss) on investments	1,046,487	(177,119)
Investment fees	(24,411)	(26,688)
Change in funds held by community foundation	10,184	5,352
	<u>\$ 1,259,535</u>	<u>\$ 69,583</u>

Realized gains (losses) are reported in the consolidated statements of operations and change in net assets as a component of investment return. Differences between the market value and the cost of investments are classified as unrealized gains or losses. Unrealized gains and losses on investments are included as a component of investment return for the period attributable to change in unrealized gains or losses related to the assets held as of the end of the year.

3. PROPERTY AND EQUIPMENT

A summary of property and equipment as of June 30 follows:

	2021	2020
Land	\$ 965,693	\$ 965,693
Land improvements	741,665	619,974
Building and improvements	11,669,451	10,889,907
Equipment and furniture	4,579,708	4,357,515
	17,956,517	16,833,089
Accumulated depreciation	(10,289,367)	(9,651,836)
Property and equipment, net	<u>\$ 7,667,150</u>	<u>\$ 7,181,253</u>

There were no significant commitments related to property and equipment as of June 30, 2021.

PORTER-STARKE SERVICES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2021 AND 2020

4. TRANSACTIONS WITH AURORA VIEW, L.P.

Notes Payable

During 2018, the Center received funds from the Affordable Housing Program (AHP) of \$500,000 and the National Housing Trust Fund (NHTF) of \$604,000 for the purpose of loaning these funds to Aurora View, L.P. (the L.P.) for construction of an affordable housing project in Valparaiso, Indiana. The AHP note payable bears interest at a fixed rate of 2.75% and is due in December 2047. The NHTF note payable bears interest at a fixed rate of 3.00% and is also due in December 2047. Neither of the notes payable requires principal payments as long as the housing project is utilized for the intended purpose of affordable housing. Principal payments are contingent on the availability of cash from the project. Principal payments totaling approximately \$101,000 and \$104,000 were made during 2021 and 2020, respectively. The notes payable are secured by property with a net book value of \$4,625,000 and \$4,750,000 as of June 30, 2021 and 2020, respectively. Accrued interest payable on these notes was \$34,000 and \$35,000 as of June 30, 2021 and 2020, respectively.

Notes Receivable

The Center loaned these funds, along with an additional \$15,000, to the L.P. The AHP note receivable of \$500,000 bears interest at a fixed rate of 2.75%. The NHTF note receivable of \$604,000, along with the Center's amount of \$15,000, bear interest at a fixed rate of 3.00%. All notes receivable are due in December 2047. None of the notes receivable require principal payments as long as the housing project is utilized for the intended purpose of affordable housing. Principal payments are contingent on the availability of cash from the project. Principal payments totaling approximately \$101,000 and \$104,000 were made during 2021 and 2020, respectively. The notes receivable are secured by the L.P.'s building and improvements with a net book value of \$4,625,000 and \$4,750,000 as of June 30, 2021 and 2020, respectively. Accrued interest receivable on these notes was \$34,000 and \$35,000 as of June 30, 2021 and 2020, respectively.

5. LONG-TERM DEBT

Long-term debt as of June 30 consists of the following:

	2021	2020
Series 2011 Economic Development Revenue Bonds, through the City of Portage, Indiana, variable rate based on 67% of LIBOR and other factors adjusted monthly (1.50% as of June 30, 2021), payable in monthly installments, secured by building.	\$ 743,568	\$ 813,278
Paycheck Protection Program note payable	-0-	2,666,000
	743,568	3,479,278
Current portion of long-term debt	(69,710)	(1,254,599)
	<u>\$ 673,858</u>	<u>\$ 2,224,679</u>

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In 2012, the Center borrowed \$1,400,000 from the City of Portage, Indiana, the Series 2011 Economic Development Revenue Bonds to pay in full a capital lease obligation related to certain property. The Series 2011 Bonds bear interest at the LIBOR rate adjusted monthly and are secured by property. The Series 2011 Bonds are due in February 2032. The net book value of the building and improvements serving as collateral was approximately \$909,000 and \$940,000 as of June 30, 2021 and 2020, respectively. In 2012, the Center, the City of Portage, Indiana and 1st Source Bank entered into a bond purchase agreement whereby 1st Source Bank purchased from the City of Portage the Series 2011 Bonds in a private placement. The bond purchase agreement expires in February 2032 and requires the Center to comply with certain restrictive loan covenants. As of June 30, 2021 and 2020, the Center believed it was in compliance with these restrictive loan covenants.

In April 2020, the Center received a low interest note payable loan in the amount of \$2,666,000 under the Paycheck Protection Program (PPP) administered by the Small Business Administration (SBA). The PPP note payable was unsecured with fixed interest at 1% and funds advanced under were subject to forgiveness, if certain criteria was met, with the remaining balance repayable within two years of disbursement. The PPP note payable could be forgivable to the extent that the Center incurred and spent the funds on qualified expenditures, which included payroll, employee health insurance, rent, utilities, and interest costs during the covered period as defined by the PPP guidance. In addition, the Center was required to maintain specific employment and wage levels during the pandemic and submit adequate documentation of such expenditures to qualify for forgiveness. During 2021, the Center received notification from the SBA that the note payable was forgiven in its entirety.

The future maturities of long-term debt are as follows for the years ending June 30:

Year Ending June 30,	
2022	\$ 69,710
2023	69,710
2024	69,710
2025	69,710
2026	69,710
Thereafter	395,018
	<u>\$ 743,568</u>

6. DERIVATIVE FINANCIAL INSTRUMENTS – INTEREST RATE SWAP

Objectives and Strategies for Using Derivatives

The Center makes limited use of derivative financial instruments for the purpose of managing interest rate risk. In particular, forward interest rates swaps (which are designated as cash flow hedges) are used to manage the risk associated with interest rates on variable-rate borrowings and to lower its overall borrowing costs.

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As of June 30, 2021 and 2020, the Center has an outstanding interest rate swap agreement with a financial institution of approximately \$744,000 and \$813,000, respectively. Under the interest rate swap agreement, the Center pays a fixed rate of 3.16% while it receives from the counter party a variable rate based on 67% of USD-LIBOR-BBA and other factors (1.50% and 1.56% at June 30, 2021 and 2020, respectively). The interest rate swap agreement matures on February 1, 2022. The Center is exposed to credit loss in the event of nonperformance by the other parties to the interest rate swap agreements. Non-performance by the counter party is not expected to occur.

The derivative is not designated as a hedging instrument, and is marked-to-market on the consolidated balance sheets at fair value. The related gain and loss are included in excess revenues and support 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 asset derivatives are reported in the consolidated balance sheets as other assets and liability derivatives are reported as derivative liabilities. As of June 30, 2021 and 2020, the fair values of derivative recorded in the consolidated balance sheets are as follows:

	2021	2020
Derivative liability	\$ (8,164)	\$ (21,037)

During 2021 and 2020, the unrealized gain (loss) on derivative recognized in the consolidated statements of operations and changes in net assets and reported as a component of other revenues and gain (loss) is as follows:

	2021	2020
Unrealized gain (loss) on derivative	\$ 12,873	\$ (7,750)

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

7. LINE-OF-CREDIT

The Center's approved line-of-credit of \$750,000 expires on November 30, 2021. The line-of-credit is secured by all assets and bears interest at the prime rate plus .25 basis points (3.50% as of June 30, 2021). The line-of-credit contains restrictive covenants. There was no outstanding balance as of June 30, 2021 and 2020.

8. ESTIMATED THIRD-PARTY SETTLEMENTS

Estimated third-party settlements for Medicare, Medicaid, Medicaid Rehabilitation Option (MRO), grants and other programs reflect the difference between interim reimbursement and reimbursement as determined by contractual agreements and third-party audits. Based upon payments received from Medicare, Medicaid, MRO, grants and other programs, the Center has estimated and recorded a liability of approximately \$831,000 and \$1,050,000, respectively as of June 30, 2021 and 2020. Also included in estimated-third party settlements are refundable advances for certain grants.

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The Center received approximately \$2,101,000 and \$1,840,000 of MRO payments for 2021 and 2020, respectively. These claims are subject to periodic audit. No estimated settlement has been recorded for periods not audited, as such adjustments, if any cannot reasonably be determined.

The year-end cost reports filed with Medicare through June 30, 2020 have been audited by Medicare and any resulting differences are reflected in the consolidated financial statements. During 2021 and 2020, the Center did not recognize a change in net assets and net patient service revenue due to the differences between original estimates and subsequent revisions for the final settlement of cost reports.

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. The difference between computed reimbursement and interim reimbursement is reflected as a receivable from or payable to the third-party program.

9. COMMITMENTS AND CONTINGENCIES

Operating Leases

The Center has several operating leases primarily for office space and equipment expiring through 2021. Rental expense for these leases consisted of approximately \$212,000 and \$176,000 for 2021 and 2020, respectively, and has been included in operating expenses in the consolidated statements of operations and changes in net assets. Future minimum lease payment for the year ending June 30, 2022 approximate \$56,000.

Legal Proceedings

The Center can be involved in legal proceedings which are ordinary, routine litigation inherent in the healthcare industry. After consultation with legal counsel, management estimates that any such matters would be resolved without material adverse effect on the Center's future financial position, results from operations and cash flows.

10. MEDICAL MALPRACTICE CLAIMS

The Center 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 recover of \$1,650,000 prior to July 1, 2019. The Act requires the Center 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 the Center 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 the Center 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

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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 the Center's claim experience, no such accrual has been made. It is reasonably possible that this estimate could change materially in the near term.

11. RENTAL INCOME

The Center has agreements with providers to lease space at the Center's facility. The remaining agreements expire at various times through 2021. Rental income recorded under the agreements was approximately \$233,000 and \$236,000 for 2021 and 2020, respectively. The Center expects to record minimum rental income of approximately \$153,000 during 2022.

12. INDIANA FUNDS RECOVERY PROGRAM

The Center participates in a program with the State of Indiana whereby administrative actions performed by the Center that support the proper and efficient operation of the Indiana State Medicaid plan are reimbursed by the federal government, subject to the Center providing matching funds. In 2021 and 2020, the Center recorded revenue of approximately \$1,395,000 and \$1,159,000 respectively, which is included in other revenues and gain (loss) on the consolidated statements of operations and changes in net assets.

13. CONCENTRATIONS OF CREDIT RISK

The Center's main location is in Valparaiso, Indiana. The Center grants credit without collateral to its clients, most of whom are local residents and are insured under third-party agreements. Accounts receivable and patient service revenue from patients and third-party payors were composed as follows as of June 30 and for the years then ended:

	Receivable		Revenue	
	2021	2020	2021	2020
Medicaid	62%	60%	65%	65%
Medicare	14%	15%	9%	9%
Other third party-payors	18%	17%	18%	17%
Self-pay	6%	8%	8%	9%
	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

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14. PENSION AND BENEFIT PLANS

The Center maintains a defined contribution profit sharing and 401(k) plan (the Plan) for eligible employees. Substantially all full-time employees of the Center are covered under the Plan. In addition to individual participant contributions to the Plan, the Center matches 20% of all employee contributions and can make an annual discretionary contribution to eligible employees. The discretionary contribution in 2021 and 2020 was 3% of eligible compensation as defined by the Plan. The Center offers non-qualified 457(b) benefit plans to certain eligible employees. Total expense related to these plans for 2021 and 2020 was approximately \$521,000 and \$463,000, respectively.

Funds held by the Center under non-qualified 457(b) benefit plans arrangements are reflected on the consolidated balance sheets as deferred compensation in the assets and liabilities sections at approximately \$2,426,000 and \$1,609,000 as of June 30, 2021 and 2020, respectively.

15. SELF INSURED HEALTH PLAN

The Center has a self-insurance plan for its employees' health care benefits. A third-party claims administrator has been retained to process all benefit claims. The plan purchased individual excess risk insurance to cover individual health claims with no aggregate limit. Total expense was approximately \$1,724,000 for 2021 and \$1,460,000 for 2020.

16. FUNCTIONAL EXPENSES

The Center provides comprehensive health services to residents within its geographic location. The costs of supporting the programs and other activities have been summarized on a functional basis in the tables below. Expenses have been allocated among health services, general and administrative and fundraising based on actual direct expenditures and cost allocations based on estimates of time spent by the Center's personnel. The expenses that are allocated include depreciation and interest. Although the methods used were appropriate, alternative methods may provide different results.

	2021			
	Health Services	General & Administrative	Fundraising	Total Expenses
Salaries and related expenses	\$ 17,166,143	\$ 2,996,239	\$ 3,445	\$ 20,165,827
Operating	4,747,032	1,326,146	35,925	6,109,103
Depreciation	337,588	303,080	397	641,065
HAF and HIP programs	514,819	-0-	-0-	514,819
Interest	21,668	3,841	6	25,515
	<u>\$ 22,787,250</u>	<u>\$ 4,629,306</u>	<u>\$ 39,773</u>	<u>\$ 27,456,329</u>

PORTER-STARKE SERVICES, INC.NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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	2020			
	Health Services	General & Administrative	Fundraising	Total Expenses
Salaries and related expenses	\$ 14,848,060	\$ 2,625,566	\$ 10,368	\$ 17,483,994
Operating	4,377,574	1,446,148	97,366	5,921,088
Depreciation	341,580	302,385	1,195	645,160
HAF and HIP programs	634,714	-0-	-0-	634,714
Interest	27,038	4,953	20	32,011
	<u>\$ 20,228,966</u>	<u>\$ 4,379,052</u>	<u>\$ 108,949</u>	<u>\$ 24,716,967</u>

17. 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 the Center has 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, 2021 and 2020.

- *Money market mutual funds*: Valued based at the subscription and redemption activity at a \$1 stable net asset value (NAV). However, on a daily basis the funds are valued at their daily NAV calculated using the amortized cost of securities.
- *Mutual funds*: Valued at the daily closing price as reported by the fund. Mutual funds held by the Center are open-end mutual funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily NAV and to transact at that price. The mutual funds held by the Center are deemed to be actively traded.

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- *Funds held by Community Foundation:* Valued at the fair value as reported by the Community Foundation, which represents the Center's pro rata interest in the Community Foundation's 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.
- *Deferred compensation liability:* Valued based on the underlying assets which are mutual funds.

Based upon the levels as defined above, the Center's assets and liabilities as of June 30, 2021 and 2020 are classified as follows:

June 30, 2021				
	Total	Level 1	Level 2	Level 3
Assets				
Investments				
Mutual funds				
Money market mutual funds	\$ 39,834	\$ -0-	\$ 39,834	\$ -0-
Large cap	3,916,710	3,916,710	-0-	-0-
Mid cap	465,856	465,856	-0-	-0-
Small cap	260,729	260,729	-0-	-0-
International	902,926	902,926	-0-	-0-
Bond	2,365,313	2,365,313	-0-	-0-
Total investments	<u>\$ 7,951,368</u>	<u>\$ 7,911,534</u>	<u>\$ 39,834</u>	<u>\$ -0-</u>
Funds held by community foundation	<u>\$ 41,813</u>	<u>\$ -0-</u>	<u>\$ 41,813</u>	<u>\$ -0-</u>
Deferred compensation				
Mutual funds				
Money market mutual funds	\$ 394,159	\$ -0-	\$ 394,159	\$ -0-
International	267,857	267,857	-0-	-0-
Large cap	533,503	533,503	-0-	-0-
Mid cap	595,697	595,697	-0-	-0-
Small cap	195,246	195,246	-0-	-0-
Fixed income	439,844	439,844	-0-	-0-
Total deferred compensation	<u>\$ 2,426,306</u>	<u>\$ 2,032,147</u>	<u>\$ 394,159</u>	<u>\$ -0-</u>
Liabilities				
Deferred compensation	<u>\$ 2,426,306</u>	<u>\$ -0-</u>	<u>\$ 2,426,306</u>	<u>\$ -0-</u>

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	June 30, 2020			
	Total	Level 1	Level 2	Level 3
Assets				
Investments				
Mutual funds				
Money market mutual funds	\$ 114,626	\$ -0-	\$ 114,626	\$ -0-
Large cap	2,058,466	2,058,466	-0-	-0-
Mid cap	200,666	200,666	-0-	-0-
Small cap	167,371	167,371	-0-	-0-
International	510,943	510,943	-0-	-0-
Bond	3,686,390	3,686,390	-0-	-0-
Total investments	<u>\$ 6,738,462</u>	<u>\$ 6,623,836</u>	<u>\$ 114,626</u>	<u>\$ -0-</u>
Funds held by community foundation	<u>\$ 31,629</u>	<u>\$ -0-</u>	<u>\$ 31,629</u>	<u>\$ -0-</u>
Deferred compensation				
Mutual funds				
Money market mutual funds	\$ 345,652	\$ -0-	\$ 345,652	\$ -0-
International	152,836	152,836	-0-	-0-
Large cap	304,410	304,410	-0-	-0-
Mid cap	385,180	385,180	-0-	-0-
Small cap	129,503	129,503	-0-	-0-
Fixed income	291,740	291,740	-0-	-0-
Total deferred compensation	<u>\$ 1,609,321</u>	<u>\$ 1,263,669</u>	<u>\$ 345,652</u>	<u>\$ -0-</u>
Liabilities				
Deferred compensation	<u>\$ 1,609,321</u>	<u>\$ -0-</u>	<u>\$ 1,609,321</u>	<u>\$ -0-</u>

The derivative liability of approximately \$8,000 and \$21,000 as of June 30, 2021 and 2020, respectively, is classified as level 2.

The Center holds 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.

PORTER-STARKE SERVICES, INC.

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18. LIQUIDITY AND AVAILABILITY OF FINANCIAL RESOURCES

The Center's financial assets available within one year and other liquidity resources of the consolidated balance sheet date for general expenditure are as follows as of June 30, 2021 and 2020:

	2021	2020
Cash	\$ 12,366,824	\$ 9,774,276
Investments	7,951,368	6,738,462
Patient accounts receivable	1,205,494	1,202,487
Other receivables	1,841,030	1,737,417
	<u>\$ 23,364,716</u>	<u>\$ 19,452,642</u>

Patient accounts and other receivables are subject to implied time restrictions, but are expected to be collected within one year. As a part of the Center's liquidity management, it has a policy to structure financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, the Center periodically invests excess cash in investments. Furthermore, the Center had \$750,000 available on its line of credit available to meet cash flow needs as June 30, 2021 and 2020, respectively.

19. FEDERAL, STATE AND LOCAL AWARDS

Uniform Compliance Guidelines for Examination of Entities Receiving Financial Assistance from Government Sources, issued by the Indiana State Board of Accounts, requires Indiana not-for-profit entities to disclose Federal, state and local awards expended during the entities' annual reporting period. Federal awards are presented in the schedule of expenditures of federal awards as supplementary information.

During 2021 and 2020, and the Center expended the following state and local awards:

Grantor	2021	2020
State		
Indiana Division of Mental Health and Addiction	\$ 2,438,512	\$ 2,697,490
Other state contracts	<u>170,775</u>	<u>150,342</u>
Total state awards	2,609,287	2,847,832
Local		
Porter County	2,453,831	2,346,924
Starke County	135,237	128,354
Other local grants	<u>61,995</u>	<u>347,675</u>
Total local awards	<u>2,651,063</u>	<u>2,822,953</u>
Total state and local awards	<u>\$ 5,260,350</u>	<u>\$ 5,670,785</u>

PORTER-STARKE SERVICES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2021 AND 2020

20. COVID-19

In March 2020, the World Health Organization declared Coronavirus (COVID-19) a pandemic. The continued spread of COVID-19, or any similar outbreaks in the future, may continue to adversely impact the local, regional, national and global economies. The extent to which COVID-19 continues to impact the Center's operating results is dependent on the breadth and duration of the pandemic and could be affected by other factors management is not currently able to predict. Impacts include, but are not limited to, additional costs for responding to COVID-19, potential shortages of healthcare personnel, potential shortages of clinical supplies, loss of, or reduction to, revenue, and investment portfolio declines. Management believes the Center is taking appropriate actions to respond to the pandemic. However, the full impact is unknown and cannot be reasonably estimated at the date the consolidated financial statements were available to be issued.

During 2021 and 2020, Provider Relief Fund (PRF) grants authorized under the Coronavirus Aids, Relief, and Economic Security (CARES) Act were distributed to healthcare providers impacted by the outbreak of the COVID-19 pandemic. The Center received approximately \$713,000 and \$325,000 of these funds from the CARES Act during 2021 and 2020, respectively. PRF amounts are recognized to the extent the Center meets the terms and conditions of the grant. The Center recognized PRF of approximately \$1,038,000 and \$-0- as public support within revenues in the consolidated statements of operations and changes in net assets during 2021 and 2020, respectively. No PRF amounts were deferred as refundable advances as of June 30, 2021 and \$325,000 was recorded as a refundable advance as of June 30, 2020. Compliance with the terms and conditions as set forth related to qualifying COVID-19 expenses and lost revenues may also be subject to future government review and interpretation as they are emerging and uncertain at the time the consolidated financial statements were available to be issued. There can be no assurance that regulatory authorities will not challenge the Center'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 the Center's financial position.



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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

To the Board of Directors
Porter-Starke Services, Inc.
Valparaiso, 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 Porter-Starke Services, Inc. (the Center), which comprise the consolidated balance sheet as of June 30, 2021, 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 5, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Center's 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 the Center's internal control. Accordingly, we do not express an opinion on the effectiveness of the Center's 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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Center's consolidated financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or 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.

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, as defined above. However, material weaknesses may exist that have not been identified.

Board of Directors
Porter-Starke Services, Inc.
Valparaiso, Indiana

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Center's 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 determination of consolidated financial statement amounts. 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 the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Center's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Blue & Co., LLC

Indianapolis, Indiana
October 5, 2021



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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*

To the Board of Directors
Porter-Starke Services, Inc.
Valparaiso, Indiana

Report on Compliance for Each Major Federal Program

We have audited Porter-Starke Services, Inc.'s (the Center) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Center's major federal programs for the year ended June 30, 2021. The Center's major federal program is identified in the summary of audit results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance on the Center's major federal programs based on our audit of the types of compliance requirements referred to above. 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* (the *Uniform Guidance*). Those standards and *Uniform Guidance* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Center's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination on the Center's compliance with those requirements.

Opinion on Each Major Federal Program

In our opinion, the Center complied, in all material respects, with the types of requirements referred to above that could have a direct and material effect on its major federal programs for the year ended June 30, 2021.

Report on Internal Control Over Compliance

Management of the Center is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Center's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with *Uniform Guidance*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Center's 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 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 first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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.

Board of Directors
Porter-Starke Services, Inc.
Valparaiso, Indiana

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

We have audited the consolidated financial statements of the Center as of and for the year ended June 30, 2021, and have issued our report thereon dated October 5, 2021, 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 is presented for purposes of additional analysis as required by the *Uniform Guidance* 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 expenditure 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 5, 2021

PORTER-STARKE SERVICES, INC.

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2021**

Grantor/Pass-through Grantor/Program Title	CFDA Number	Grant Identification #	Federal Expenditures
Major programs			
U.S. Department of Health and Human Services (DHHS)			
Health Resources and Services Administration (HRSA)			
Block Grant for Prevention and Treatment of Substance Abuse (SA)	93.959	42017	\$ 427,950
Block Grant for Prevention and Treatment of SA	93.959	44222	125,000
Block Grant for Prevention and Treatment of SA	93.959	39528	198,744
Total for 93.959			751,694
Substance Abuse and Mental Health Services Administration (SAMHSA)			
Demonstration Programs to Improve Community Mental Health Services	93.829	6H79SM083107-01M001	638,004
Total major programs			1,389,698
Non-major programs			
DHHS through HRSA			
Health Center Program (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, and Public Housing Primary Care)	93.224	H80CS29005	2,048,513
Affordable Care Act Grants for New and Expanded Services under the Health Center Program	93.527	H80CS29005	45,429
Total Health Center Program Cluster			2,093,942
Block Grant for Community Mental Health Services	93.958	42017	153,880
Social Services Block Grant	93.667	42017	84,446
Projects for Assistance in Transition from Homelessness.	93.150	36294	42,277
Rural Health Opioid Program Grant	93.912	GA1RH33534	188,789
DHHS			
Indiana Family and Social Services Administration			
State Targeted Response to the Opioid Crisis Grant	93.788	32832	100,965
DHHS			
SAMHSA			
Health Center Program (Community Health Centers, Migrant Health Centers, Medication Assisted Treatment Prescription Drug and Opioid Addiction Grant)	93.243	H79TI081422	573,551
DHHS			
Project Sponsor Fees	93.565	SC-019-0136	20,153
National Center for Injury and Prevention and Control Grant	93.136	40342	11,034
COVID-19, Provider Relief Funds	93.498	Not available	325,041
U.S. Department of Justice			
Comprehensive Opioid, Stimulant, and SA Program Grant	16.838	2017-AR-BX-K003	60,255
U.S. Department of the Treasury			
COVID-19, Coronavirus Relief Fund	21.019	Not available	71,351
U.S. Department of Housing and Urban Development			
Indiana Housing Community Development Authority			
Subaward of the Continuum of Care Program	14.267	SC-019-0136	492,963
Total non-major programs			4,218,647
Total federal expenditures			\$ 5,608,345

See Report of Independent Auditors on Schedule of Expenditures
of Federal Awards on page 32.

See accompanying notes to Schedule of Expenditures of Federal Awards.

PORTER-STARKE SERVICES, INC.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS JUNE 30, 2021

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (SEFA) includes the federal award activity of the Center under programs of the federal government for the year ended June 30, 2021. The information in the SEFA is presented in accordance with requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the *Uniform Guidance*). 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. The basic consolidated financial statement classifications may include other financial activity for reporting purposes.

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. The Center has elected to use the 10% de minimis indirect cost rate as allowed under the *Uniform Guidance*.

3. SUBRECIPIENT PASS-THROUGH

No entities received pass-through awards from the Center during 2021.

4. PROVIDER RELIEF FUNDS

Under terms and conditions of the Provider Relief Fund (PRF) under the Coronavirus Aids, Relief, and Economic Security (CARES) Act, the Center 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.

The 2021 SEFA includes PRF of approximately \$325,000 which was received by the Center prior to June 30, 2020. The Center recorded this amount as a refundable advance liability on its 2020 consolidated financial statements as the terms and conditions of the PRF grant were not satisfied by the Center as of June 30, 2020. During 2021, these funds were recognized as revenue in the consolidated statement of operations and changes in net assets as the terms and conditions of the PRF grant were satisfied by the Center. Additionally, this amount is included as expenditures on the 2021 SEFA.

During 2021, the Center received PRF of approximately \$713,000 and recognized this amount as revenue in its 2021 consolidated statement of operations and changes in net assets as the terms and conditions of the PRF grant were satisfied by the Center in 2021. However, HHS requires these PRF amounts to be reported on the 2022 SEFA rather than the 2021 SEFA.

5. FAIR MARKET VALUE OF DONATED PERSONAL PROTECTED EQUIPMENT (UNAUDITED)

During 2021, the Center did not receive donated personal protective equipment from federal sources.

PORTER-STARKE SERVICES, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2021

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 material weakness(es) noted? ☐ yes ☒ none reported

Noncompliance material to consolidated 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 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 program(s):

<u>CFDA #</u>	<u>Name of Federal Program</u>
93.959	Block Grant for SAPT
93.829	CCBHC

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 Consolidated 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

No matters reported