

**KidsPeace Corporation and  
Subsidiaries**

Consolidated Financial Statements and  
Supplementary Information

Years Ended December 31, 2023 and 2022  
with Independent Auditor's Report

**MaherDuessel**

A horizontal bar is positioned below the company name. The left portion of the bar is black, and the right portion is blue, matching the color of the 'D' in the company name.

# KIDSPACE CORPORATION AND SUBSIDIARIES

YEARS ENDED DECEMBER 31, 2023 AND 2022

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## Independent Auditor's Report

**Board of Directors  
KidsPeace Corporation and Subsidiaries**

### Report on the Audit of the Consolidated Financial Statements

#### Opinion

We have audited the accompanying consolidated financial statements of KidsPeace Corporation and Subsidiaries (KidsPeace), which comprise the consolidated balance sheet as of December 31, 2023 and 2022, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of KidsPeace as of December 31, 2023 and 2022, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

#### Basis for Opinion

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

#### Change in Accounting Principle

As described in note 2 to the financial statements KidsPeace adopted ASU 2016-13, "*Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*," which requires a financial asset measured at amortized cost basis to be presented at the net amount expected to be collected. Our opinion is not modified with respect to this matter.

## **Responsibilities of Management for the Consolidated Financial Statements**

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

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

## **Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards 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 accounting standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of KidsPeace's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about KidsPeace'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.

### Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

*Maher Duessel*

Harrisburg, Pennsylvania  
June 10, 2024

# KIDSPACE CORPORATION AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2023 and 2022

	2023	2022
<b>Assets</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 4,745,505	\$ 5,208,171
Accounts receivable from clients, net of allowance for credit losses of \$1,744,937 and \$3,127,495 in 2023 and 2022, respectively	15,318,853	11,838,586
Accounts receivable from grants and contracts	15,372,455	12,210,779
Accounts receivable, other	207,475	524,599
Assets limited as to use:		
Restricted cash	2,953,635	2,662,894
Other current assets	3,495,446	3,052,580
<b>Total current assets</b>	<b>42,093,369</b>	<b>35,497,609</b>
<b>Noncurrent assets:</b>		
Assets limited as to use:		
Internally designated by board for certain activities	57,138	1,324,127
Held by trustees	2,721,960	2,608,930
<b>Total assets limited as to use</b>	<b>2,779,098</b>	<b>3,933,057</b>
Property and equipment, net	28,686,334	29,727,665
Right-of-use assets	1,122,786	1,047,128
Other long-term assets	400,000	400,000
<b>Total Assets</b>	<b>\$ 75,081,587</b>	<b>\$ 70,605,459</b>
<b>Liabilities and Net Assets</b>		
<b>Liabilities:</b>		
<b>Current liabilities:</b>		
Line of credit-borrowing	\$ 13,098,621	\$ 9,916,217
Accounts payable and accrued expenses	16,216,400	16,069,365
Refundable advances	3,233,322	1,567,698
Current portion of operating lease liabilities	608,953	599,488
Accrued interest payable	560,768	570,152
Current portion of long-term debt	1,303,181	1,286,174
<b>Total current liabilities</b>	<b>35,021,245</b>	<b>30,009,094</b>
<b>Noncurrent:</b>		
Long-term debt, net of current portion	32,367,508	32,939,473
Operating lease liabilities	513,832	444,852
Other liabilities	1,695,000	1,530,000
<b>Total noncurrent liabilities</b>	<b>34,576,340</b>	<b>34,914,325</b>
<b>Total Liabilities</b>	<b>69,597,585</b>	<b>64,923,419</b>
<b>Net Assets:</b>		
Without donor restrictions	5,001,167	4,328,409
With donor restrictions	482,835	1,353,631
<b>Total Net Assets</b>	<b>5,484,002</b>	<b>5,682,040</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 75,081,587</b>	<b>\$ 70,605,459</b>

The accompanying notes are an integral part of these consolidated financial statements.

# KIDSPACE CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS

YEARS ENDED DECEMBER 31, 2023 and 2022

	2023	2022
<b>Revenues, Gains, and Other Support:</b>		
Net client service revenue	\$ 71,484,175	\$ 63,219,027
Government contract revenue	38,766,195	33,094,009
Grant revenue	24,624,378	26,715,604
PPP Loan grant revenue	-	2,000,000
Contributions	861,217	588,156
Donated services	121,880	105,802
Other revenue	2,675,393	894,047
Net assets released from restrictions for operations	1,185,740	503,734
Total revenues, gains, and other support	139,718,978	127,120,379
<b>Expenses:</b>		
Salaries and wages	80,638,762	76,424,524
Employee benefits and related taxes	22,020,265	18,676,726
Professional fees	2,463,671	2,190,129
Foster care payment expense to families	5,845,722	6,584,080
Medical supplies and drugs	733,035	638,213
Transportation	1,026,414	1,084,521
Insurance	2,518,220	2,414,692
Utilities	1,611,092	1,729,990
Repairs and maintenance	4,932,713	4,309,516
Depreciation	3,992,539	4,197,147
Interest	3,327,139	2,676,064
Provision (recovery) for credit losses	2,260,519	(780,766)
Other operating expenses	7,763,625	7,525,877
Total expenses	139,133,716	127,670,713
Revenue, Gains and Other Support		
Over (Under) Expenses From Operation	585,262	(550,334)
<b>Net Assets Without Donor Restriction, Nonoperating:</b>		
Net assets released from restrictions for acquisition of long-lived assets	87,496	164,012
Change in net assets without donor restrictions	672,758	(386,322)
<b>Net Assets With Donor Restriction:</b>		
Contributions and grants	402,440	876,541
Net assets released from restrictions	(1,273,236)	(667,746)
Change in net assets with donor restrictions	(870,796)	208,795
Change in net assets	(198,038)	(177,527)
<b>Net Assets:</b>		
Beginning of year	5,682,040	5,859,567
End of year	\$ 5,484,002	\$ 5,682,040

The accompanying notes are an integral part of these consolidated financial statements.

# KIDSPACE CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2023 and 2022

	2023	2022
<b>Cash Flows From Operating Activities:</b>		
Change in net assets	\$ (198,038)	\$ (177,527)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Amortization of bond issuance costs	22,146	21,905
Amortization of capital appreciation	709,069	206,516
Depreciation	3,992,539	4,197,147
(Gain) loss of sale of assets	(1,242,848)	(16,335)
Provision for credit losses	2,258,491	417,775
Changes in operating assets and liabilities:		
Accounts receivable from clients	(2,258,491)	(108,195)
Accounts receivable from grants and contracts	(3,161,676)	(3,969,517)
Accounts receivable, other	317,124	(386,024)
Refundable advances	1,665,624	(1,992,719)
Other current assets	(442,866)	(681,427)
Accounts payable and accrued expenses	147,035	3,167,416
Other liabilities	(165,000)	90,000
Accrued interest payable	(9,384)	(10,188)
Net cash provided by (used in) operating activities	<u>1,633,725</u>	<u>758,827</u>
<b>Cash Flows From Investing Activities:</b>		
Purchases of property and equipment	(2,672,634)	(2,420,389)
Proceeds from the sale of property and equipment	1,297,058	23,588
Net cash provided by (used in) investing activities	<u>(1,375,576)</u>	<u>(2,396,801)</u>
<b>Cash Flows From Financing Activities:</b>		
Net (repayments) proceeds from line of credit	3,182,404	3,844,438
Repayments of long-term debt	(1,286,173)	(808,530)
Net cash provided by (used in) financing activities	<u>1,896,231</u>	<u>3,035,908</u>
<b>Change in cash and cash equivalents and assets limited as to use</b>	<u>2,154,380</u>	<u>1,397,934</u>
<b>Cash and Cash Equivalents:</b>		
Beginning of year	11,804,122	10,406,188
End of year	<u>\$ 13,958,502</u>	<u>\$ 11,804,122</u>
<b>Supplemental Cash Flow Information:</b>		
Cash paid for interest	<u>\$ 2,605,308</u>	<u>\$ 2,457,831</u>
<b>Reconciliation of Cash and Cash Equivalents:</b>		
Cash and cash equivalents	\$ 4,745,505	\$ 5,208,171
Assets limited as to use, current	2,953,635	2,662,894
Assets limited as to use, noncurrent	2,779,095	3,933,057
Total cash and cash equivalents	<u>\$ 10,478,235</u>	<u>\$ 11,804,122</u>

The accompanying notes are an integral part of these consolidated financial statements.



# KIDSPeACE CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2023 AND 2022

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### 1. Organization and Basis of Presentation

#### Nature of Activities

KidsPeace Corporation is a private, not-for-profit, 501(c)(3) children's charity founded in 1882. The mission of KidsPeace Corporation and its subsidiaries listed below (collectively, KidsPeace) is to give hope, help and healing to children, adults and those who love them. This is carried out by offering the highest quality prevention, public education, hospital, residential, education, adoption, foster care and community-based services. KidsPeace is one of the oldest and largest organizations founded to help children facing crisis.

The consolidated financial statements include the accounts of KidsPeace Corporation, as sole corporate member, and the following tax-exempt organizations:

- KidsPeace National Centers, Inc.
- KidsPeace Children's Hospital, Inc.
- KidsPeace National Centers of New England, Inc.
- KidsPeace National Centers of North America, Inc.
- KidsPeace Foundation, Inc.
- KidsPeace National Centers of Georgia, Inc (KPGA)

Inter-company transactions and balances have been eliminated in consolidation.

### 2. Summary of Significant Accounting Policies

#### Basis of Accounting and Use of Estimates

KidsPeace prepares its consolidated financial statements on the accrual basis of accounting. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenue and expense during the reporting period. Accordingly, actual results could differ from those estimates.

# KIDSPeACE CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2023 AND 2022

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### Cash and Cash Equivalents

Cash and cash equivalents consist of cash and investments in highly liquid financial instruments with an original maturity of three months or less, excluding those classified as assets limited as to use. KidsPeace maintains cash held in regional banks. Balances at times exceeded federally insured limits.

### Allowance for Credit Losses

KidsPeace operates in the human services field, providing education, healthcare services, foster care, and other associated human services primarily to minor children through the age of 21 and its accounts receivables are primarily derived from hospital services, educational services, placement services, and other services provided and are mainly agreed upon fee for service rates from the third-party payors. These third-party payors include insurance companies, supporting county and state governments, and managed care organizations. KidsPeace also receives a small amount of revenue from self-pay consumers, which is a small percentage of their overall revenue.

At each balance sheet date, KidsPeace recognizes an expected allowance for credit losses. In addition, also at each reporting date, this estimate is updated to reflect any changes in credit risk since the receivable was initially recorded. This estimate is calculated on a pooled basis where similar risk characteristics exist.

The allowance estimate is derived from a review of KidsPeace's historical losses based on the aging of receivable and considering the historical payments of certain payors. This estimate is adjusted for management's assessment of current conditions, reasonable and supportable forecasts regarding future events, and any other factors deemed relevant by KidsPeace. KidsPeace believes historical loss information is a reasonable starting point in which to calculate the expected allowance for credit losses as KidsPeace portfolio segments have remained constant since KidsPeace's inception. However, due to an emphasis placed on correct billing codes, additional work put in by collections staff, and write off of older accounts receivable from previous years, KidsPeace's current year credit losses were lower than past credit losses.

Accounts receivable from clients are charged off against the allowance for credit losses when management determines that recovery is unlikely and KidsPeace ceases collections efforts. If any recoveries are made from any accounts previously written off, they will be recognized as an offset to credit loss expense in the year of recovery, in accordance with KidsPeace's accounting policy election. The total amount of write-offs was \$2,767,266 for the year ending December 31, 2023.

# KIDSPACE CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2023 AND 2022

The allowance for credit losses for accounts receivable by portfolio segment and the related activity are as follows:

	2023					
	National Center	Hospital	New England	North America	Georgia	Total
Beginning Balance	\$ 1,215,298	\$ 1,475,798	\$ 146,795	\$ 256,344	\$ 33,260	\$ 3,127,495
Provision for credit losses	728,489	632,164	(168,179)	169,527	20,557	1,382,558
Write-offs	(1,456,978)	(1,264,328)	334,208	(339,054)	(41,114)	(2,767,266)
Recoveries	-	-	2,150	-	-	2,150
Ending Balance	<u>\$ 486,809</u>	<u>\$ 843,634</u>	<u>\$ 314,974</u>	<u>\$ 86,817</u>	<u>\$ 12,703</u>	<u>\$ 1,744,937</u>

Accounts receivable from clients at December 31, 2023, and 2022 are presented net of allowances for credit losses of approximately \$1,745,000 and \$3,127,000, respectively, in the consolidated balance sheet.

### Assets Limited as to Use

Assets limited as to use include assets set aside by the Board of Directors (Board), donors assets held by trustee under indenture agreement (principal, interest and debt service reserve funds), assets held by trustee for the Pension Benefit Guarantee Corporation (PBGC), collateralized letters of credit for the self-insured workers' compensation program and self-insured unemployment obligations in Pennsylvania.

Amounts set aside by the Board are designated for capital projects and the operation of certain facilities. The Board retains control over designated assets and may, at its discretion, subsequently use the assets for other purposes. Assets limited to use that are related to current obligations are reported as current assets.

### Property and Equipment

Property and equipment are stated at cost, donated assets are recorded at their fair value at the date of donation and are being depreciated on a straight-line basis over the estimated useful lives of the assets. Expenditures for maintenance and repairs are charged against operations. Renewals and improvements that materially extend the useful lives of the assets are capitalized.

# KIDSPeACE CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2023 AND 2022

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

KidsPeace continually evaluates whether events and circumstances have occurred that indicate the remaining estimated useful life of long-lived assets is appropriate, or whether the remaining balance may not be recoverable. When considered impaired, an impairment loss is recognized to the extent carrying value exceeds the fair value of the asset. There were no indicators of asset impairment during the years ending December 31, 2023 and 2022.

### Leases

KidsPeace has entered into a variety of operating leases for office space and equipment. The obligations associated with these leases have been recognized as a liability in the consolidated statements of financial position based on future lease payments, discounted by the incremental borrowing rate.

Lease terms may include options to extend or terminate certain leases. The value of a lease is reflected in the valuation if it is reasonably certain an option to extend or terminate will be exercised.

KidsPeace has certain leases that are for periods of 12 months or less. Leases with an initial term of 12 months or less are not recorded on the consolidated statements of financial position since KidsPeace has elected the practical expedient to exclude these leases from operating right of use assets and lease liabilities. Short-term lease expenses are recognized on a straight-line basis over the lease term as an operating expense.

### Bond Issuance Costs

Bond issuance costs consist of bond financing costs, which relate to the long-term debt and are amortized over the term of the related debt. Related interest expense for this item was \$22,146 and \$21,905 in 2023 and 2022, respectively. The unamortized balances for such costs at December 31, 2023 and 2022 are offset against debt obligations in the consolidated balance sheets.

# KIDSPeACE CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2023 AND 2022

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### Net Assets

KidsPeace reports information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions, and net assets with donor restrictions. Net assets without donor restrictions are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of KidsPeace. These assets used at the discretion of KidsPeace management and board of directors.

The net assets with donor restrictions represent purpose-restricted contributions and may include contributions made for future capital improvements to the residential facilities. Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statement of activities.

### Revenue, Gains and Other Support Under Expenses from Operations

The consolidated statements of operations and changes in net assets include the determination of revenues in excess of expenses from operations. Revenue in excess of expenses from operations is KidsPeace's performance indicator. Changes in net assets without donor restrictions which are excluded from the determination of revenues in excess of expenses from operations, consistent with industry practice, include net assets released for acquisition of long-lived assets.

### Paycheck Protection Program

On May 11 and June 19, 2020, KidsPeace received proceeds in the amount of \$10,136,300 and \$5,471,100, respectively, under the Paycheck Protection Program (PPP) which was established as part of the Coronavirus Aid, Relief and Economic Security (CARES) Act and is administered through the Small Business Administration (SBA). The PPP provides loans to qualifying nonprofit organizations in amounts up to 2.5 times their average monthly payroll expenses and was designed to provide a direct financial incentive for qualifying non-profit organizations to keep their workforce employed during the Coronavirus crisis. PPP loans are uncollateralized and guaranteed by the SBA. Advances from the PPP are forgivable after a "covered period" (eight or 24 weeks) as long as the borrower maintains its payroll levels and uses the proceeds for eligible expenses, including payroll benefits, mortgage interest, rent, and utilities. The forgiveness amount will be reduced if the borrower terminates employees or reduces salaries and wages more than 25 percent during the covered period. KidsPeace initially recorded the funds as refundable advances and recorded the forgiveness in accordance with guidance for conditional contributions when there is no longer a measurable performance or other barrier

# KIDSPACE CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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and a right of return of the PPP loans, or when such conditions are explicitly waived. Any unforgiven portion is payable over two years if issued before, or five years if issued after June 5, 2020, at an interest rate of 1 percent with payments deferred until the SBA remits the organization's loan forgiveness amount to the lender, or, if the organization does not apply for forgiveness, ten months after the end of the covered period. PPP loan terms provide for customary events of default, including payment defaults, breaches or representations and warranties, and insolvency events and may be accelerated upon the occurrence of one or more of these events of default. Additionally, PPP loan terms do not include prepayment penalties.

In May 2021, KidsPeace was approved for PPP Loan II in the amount of \$2 million; the above requirements are applicable to this PPP loan. As of December 31, 2021, KidsPeace did not recognize the PPP loan as grant revenue as not all conditions for recognition had been met by year end. As of December 31, 2022, all conditions for PPP loans that were received in 2021 have been met including SBA forgiveness and therefore recognized in revenue on the consolidated statement of operations and changes in net assets in the amount of \$2,000,000. KidsPeace did not recognize any PPP loans for the year ended December 31, 2023.

The SBA reserves the right to audit any PPP loan, regardless of size. These audits may occur after forgiveness has been granted. In accordance with the CARES Act, all borrowers are required to maintain their PPP loan documentation for six years after the PPP loan is forgiven or repaid in full and to provide that documentation to the SBA upon request.

### Net Client Service Revenue

Net client service revenues are recognized at the amount that reflects the consideration to which KidsPeace expects to be entitled in exchange for providing client care. These amounts are due from clients, third-party payors (including commercial and governmental programs), and others, and includes variable consideration for retroactive revenue adjustments due to settlement of audits, reviews and investigations. Generally, KidsPeace bills the clients and third-party payors on a monthly or semi-monthly basis, which may be several days after the services are performed and/or the client is discharged from the facility. Revenue is recognized as performance obligations are satisfied.

Performance obligations are determined based on the nature of the services provided by KidsPeace. Revenues for performance obligations are recognized based on actual charges incurred for services performed. KidsPeace 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 relate to clients in

# KIDSPeACE CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2023 AND 2022

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our hospital, residential or foster care program, or the commencement of an outpatient service, on a daily basis as services are delivered.

All of KidsPeace's performance obligations relate to contracts with a duration of less than one year, therefore KidsPeace has elected to apply the optional exemptions provided in the Financial Accounting Standards Board (FASB) Accounting Standards Codifications (ASC) 606-10-50-14(a) and as a result 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 above are primarily related to inpatient hospital or residential services at the end of the reporting period. The performance obligations for these contracts are generally completed when the clients are discharged, which generally occurs within days or weeks of the end of the reporting period.

KidsPeace determines the transaction price based on standard charges for services provided, reduced by contractual adjustments provided to third-party payors, discounts provided to uninsured or underinsured clients in accordance with KidsPeace policies, and/or implicit price concessions provided to uninsured or underinsured clients. KidsPeace determines its estimates of contractual adjustments and discounts based on contractual agreements, its discount policies and historical experience. KidsPeace determines its estimates of implicit price concessions based on its historical collection experience with a respective class of client.

KidsPeace has elected the practical expedient allowed under FASB ASC 606-10-32-18 and does not adjust the promised amount of consideration from clients and third-party payors for the effects of a significant financing component due to KidsPeace's expectation that the period between the time the service is provided to a client and the time that the client or a third-party payor pays for that service will be one year or less. KidsPeace does, in certain instances, enter into payment agreements with clients that allow payments in excess of one year, however in these cases the financing component is not deemed to be significant to the contract.

### Government Contract Revenue

KidsPeace receives the majority of its government contract revenue from federal, state and local agencies. KidsPeace recognizes government contract revenue (up to the contract amount) either on a pro-rata basis over the period of the contract or to the extent of the expenses incurred. Revenue and support recognition depends on the terms of the government contract, which primarily is based on costs incurred or a per diem rate.

# KIDSPeACE CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2023 AND 2022

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### Contributions and Promises to Give

Contributions received are recorded as without donor restrictions or with donor restrictions, depending on the existence or nature of any donor restrictions.

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of estimated future cash flows. The discounts on those amounts are computed using an interest rate applicable to the current borrowing rate when the promise is received. At times, KidsPeace receives revenues in advance from grants for program operations. Amounts received prior to incurring qualifying expenditures are recorded as refundable advances in the statement of financial position. KidsPeace received cost reimbursement grants of \$3,233,322 and \$1,567,698 that have not been recognized at December 31, 2023 and 2022, respectively, because qualifying expenditures have not yet been incurred and recorded as a refundable advance.

Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. Conditional contributions, that is, those contributions with a measurable performance or other barrier, and right of return, are not recognized until the conditions on which they depend have been substantially met. Consequently, at December 31, 2023, contributions of approximately \$2.1 million have not been recognized in the accompanying consolidated statement of activities because the conditions on which they depend have not been met. KidsPeace must perform certain physical plant upgrades and construction in order to receive and recognize the conditional contributions.

### Donated Material and Services

Donated services are recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills and would otherwise be purchased. In 2023 and 2022, donated services are at estimated values of \$121,880 and \$105,802, respectively, and the value of the services is classified as donated services (revenue) and offset by an equal charge to other operating expenses in the accompanying consolidated financial statements.

### Charity Care

In advancement of its charitable mission, KidsPeace accepts clients with limited or no ability to pay for services. Client revenue is classified as charity based on certain established policies. These policies define charity services as those services for which no payment is expected.

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# KIDSPeACE CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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KidsPeace uses generally accepted poverty income levels to assess a client's ability to pay. Charity care amounts are not included in net client service revenue or accounts receivable from clients. KidsPeace also provides a variety of services and benefits within the communities it serves, for which no compensation is received. Together, these services' estimated cost amounted to approximately \$10,000 and \$14,000 for the years ended December 31, 2023 and 2022, respectively, based on direct and indirect costs of services and supplies using a ratio of cost to gross charges.

KidsPeace's client acceptance policy is based upon its mission statement and its charitable purposes. This policy results in KidsPeace's assumption of higher-than-normal credit risk from its clients. To the extent that KidsPeace realizes additional losses resulting from such higher credit risks and clients are not identified or do not meet KidsPeace's defined charity care policy, such additional losses are included in the provision for credit losses.

### Income Taxes

The Internal Revenue Service recognizes KidsPeace and its sole corporate members as exempt organizations for federal income tax purposes under Section 501(c)(3) of the Internal Revenue Code. The entities each file separate Form 990 returns.

### Adopted Accounting Standards

The provisions of these Standards Updates have been adopted and incorporated into these financial statements:

ASU 2016-13, "*Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments.*" These amendments and related amendments require a financial asset (or a group of financial assets) measured at amortized cost basis to be presented at the net amount expected to be collected. This includes loans, debt securities, trade receivables, net investments in leases, off-balance-sheet credit exposures, reinsurance receivables, and any other financial assets not excluded from the scope that have the contractual right to receive cash. The most significant change in this standard is a shift from the incurred loss model to the expected loss model. Financial assets held by KidsPeace that are subject to the guidance in Topic 326 were trade account receivables.

# KIDSPeACE CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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### New Accounting Standards Not Yet Adopted

The Financial Accounting Standard Board (FASB) has issued Accounting Standards Updates (individually and collectively, ASU) that will become effective in future years as outlined below. Management has not yet determined the impact of these updates on the financial statements. ASU 2021-08, “*Business Combinations (Topic 805) Accounting for Contract Assets and Contract Liabilities from Contracts with Customers*,” is effective for reporting periods beginning after December 15, 2023. The amendments in this update require that an entity (acquirer) recognize and measure contract assets and contract liabilities acquired in a business combination in accordance with Topic 606.

ASU 2023-09 “*Income Taxes (Topic 740): Improvements to Income Tax Disclosures*,” is effective for fiscal years beginning after December 15, 2025 for entities other than public business entities. The amendments in this update improve tax related disclosures primarily related to the rate reconciliation and income taxes paid information.

### 3. Net Client Service Revenues

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

- **Medicaid:** Inpatient services are paid at prospectively determined per diem rates. Outpatient services are paid based on a published fee schedule. KidsPeace’s Medicaid cost reports have been settled through June 30, 2023.
- **Blue Cross:** Inpatient acute care services rendered to Blue Cross subscribers are paid at prospectively determined per diem rates. Outpatient services are reimbursed based on ambulatory payment classifications.
- **Other:** KidsPeace has also entered into payment arrangements with certain managed care and commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment under these agreements includes prospectively determined rates.

Laws and regulations concerning government programs, including Medicaid, are complex and subject to varying interpretation. As a result of investigations by governmental agencies, various health care organizations have received requests for information and notices regarding alleged

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# KIDSPeACE CORPORATION AND SUBSIDIARIES

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noncompliance with those laws and regulations, which, in some instances, have resulted in organizations 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 actions, including fines, penalties and potential exclusion from the related programs. There can be no assurance that regulatory authorities will not challenge KidsPeace'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 KidsPeace. In addition, the contracts KidsPeace has with commercial payors also provide for retroactive audit and review of claims.

Settlements with third-party payors for retroactive adjustments due to audits, reviews or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing client care. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence with the payor and KidsPeace'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 no longer subject to such audits, reviews and investigations. Adjustments arising from a change in the transaction price were not significant in 2023 or 2022.

Generally, clients who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. KidsPeace also provides services to uninsured clients, and offers those uninsured or underinsured clients a discount, either by policy or law, from standard charges. KidsPeace estimates the transaction price for clients 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 charges by any contractual adjustment, discounts and implicit price concessions. Subsequent changes to the estimate of the transaction price are generally recorded as adjustment to net client service revenues in the period of the change. Subsequent changes that are determined to be the result of an adverse change in the client's ability to pay are recorded as credit losses.

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

# KIDSPeACE CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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KidsPeace disaggregates revenue from contracts with customers by type of service and payor source as this depicts the nature, amount, timing and uncertainty of its revenue and cash flows as affected by economic factors. Tables providing details of these factors are presented below.

The composition of client service revenue by payor for the years ended December 31 is as follows:

	<u>2023</u>	<u>2022</u>
Medicaid	\$59,526,175	\$51,381,722
Commerical	6,686,718	4,741,796
Blue Cross	5,227,038	6,884,258
Self-pay/unisured	<u>44,244</u>	<u>211,251</u>
Total	<u>\$71,484,175</u>	<u>\$63,219,027</u>

Revenue from client's deductibles and coinsurance are included in the categories presented above based on the primary payor.

	<u>2023</u>	<u>2022</u>
Hospital inpatient	\$23,899,333	\$20,854,363
Residential	27,134,353	21,228,864
Education	4,224,368	3,404,454
Community programs and outpatient	13,736,469	15,378,912
Foster care	<u>2,489,652</u>	<u>2,352,434</u>
Total	<u>\$71,484,175</u>	<u>\$63,219,027</u>

Accounts receivable from clients, net were \$11,312,616, \$11,838,586, and \$15,318,853 as of January 1, 2022, December 31, 2022, and December 31, 2023, respectively.

# KIDSPACE CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2023 AND 2022

### 4. Assets Limited as to Use

	December 31,	
	2023	2022
Internally designated by the board:		
Cash and cash equivalents	\$ 57,138	\$ 1,324,127
Held by Trustees:		
Cash and cash equivalents held on behalf of Bondholders	2,721,960	2,608,930
Restricted cash - to collateralize letters of credit	2,953,635	2,662,894
Total assets limited as to use	5,732,733	6,595,951
less current portion	(2,953,635)	(2,662,894)
Total assets limited as to use, long term	<u>\$ 2,779,098</u>	<u>\$ 3,933,057</u>

### 5. Property and Equipment

	Estimated Useful Lives	2023	2022
Land		\$ 4,508,523	\$ 4,537,393
Land improvements	10 years	5,502,504	5,578,927
Buildings	20-30 years	77,242,936	77,483,742
Equipment	5 years	40,137,773	39,020,750
Furniture and fixtures	5 years	7,305,017	7,364,612
Construction in progress		1,620,363	1,248,366
Total		136,317,116	135,233,790
Accumulated depreciation		(107,630,782)	(105,506,125)
Property and equipment, net		<u>\$ 28,686,334</u>	<u>\$ 29,727,665</u>

Total depreciation expense on property and equipment for the years ended December 31, 2023 and 2022 was \$3,992,539 and \$4,197,147, respectively.

# KIDSPeACE CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2023 AND 2022

### 6. Line of Credit

In May 2013, KidsPeace initiated a credit agreement with a finance company (Line of Credit) for \$18,000,000, which expires on July 1, 2024. Subsequent to December 31, 2023 the line of credit was extended to July 1, 2026, the maximum commitment was increased to \$20,000,000 and the interest rate accrues at the secured overnight financing rate plus 4.25%. The outstanding balance of the Line of Credit on December 31, 2023 and 2022 was \$13,098,621 and \$9,916,217, respectively. Interest on outstanding borrowings accrues at a rate of the greater of LIBOR or 1.00 percent plus 4.00 percent per annum (9.49 and 8.76 percent at December 31, 2023 and 2022, respectively). Under the terms of the Line of Credit, KidsPeace maintains three lockbox accounts at a bank for collection of obligated group and nonobligated group receipts. The principal amount of the Line of Credit is settled daily from the lockbox accounts. Advance requests against the Line of Credit may be processed as needed by KidsPeace. The Line of Credit also has a first mortgage on the real estate at the Orchard Hills campus. Accrued interest and fees are settled monthly.

The Line of Credit requires KidsPeace to maintain certain covenants, as defined. The various covenants are of both a financial and nonfinancial nature, including a defined minimum liquidity, as defined. The credit agreement also requires KidsPeace to maintain an arrangement similar to a traditional lockbox and contains certain subjective acceleration clauses. Consequently, the Line of Credit amounts outstanding will be classified as current. KidsPeace has violated their minimum occupancy debt covenant as of December 31, 2023 and has been granted a waiver related to noncompliance.

### 7. Debt

	<u>2023</u>	<u>2022</u>
Revenue bonds payable - the Authority		
Series 2014 A	\$ 17,362,204	\$ 17,686,556
Series 2014 B	10,023,863	9,314,793
Pension Benefit Guarantee Corporation	5,145,235	6,045,235
Certificates of Participation - Georgia	1,139,387	1,168,586
Notes payable in aggregate monthly installments of \$976 maturing in 2023 with an interest rates of 4.8%, secured by real property	-	10,477
	<u>\$ 33,670,689</u>	<u>\$ 34,225,647</u>

# KIDSPeACE CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2023 AND 2022

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### Revenue Bonds Payable, Authority

On July 31, 2014, previously issued bonds were replaced by 2014A Bonds, 2014B Bonds and 2014C Bonds. These 2014 Bonds were issued through the Lehigh County General Purpose Authority (Authority). The 2014A Bonds have an original principal amount of \$20,095,705, maturing on February 1, 2044, with an interest rate of 7.5 percent; the Capital Appreciation Bonds 2014B Bonds have an original par amount of \$5,021,965, accreting to \$15,156,989 by August 2029, before maturing on February 1, 2044, with an interest rate of 7.5 percent; and the Federally Taxable 2014C Bonds have a principal amount of \$15,018,295 and bear no interest. The 2014C Bonds are not recorded on the consolidated balance sheet as they will be automatically discharged solely upon the payment in full of the 2014A Bonds and the 2014B Bonds with the principal payable only upon an Event of Default, as defined. As collateral, the 2014 Bondholders were granted a security interest in the Gross Receipts and various KidsPeace real properties, as defined. The Bond agreement contains certain financial covenants which are measured on an annual and trailing four-quarter basis. All required payments were made to satisfy the Bond obligations during 2023 and 2022. KidsPeace has violated the minimum occupancy debt covenant as of December 31, 2023 and has been granted a waiver related to the noncompliance.

The members of the Obligated Group included all KidsPeace entities, except KPGA at December 31, 2023 and 2022. The Obligated Group generated approximately 95 percent of the total consolidated revenue for the years ended December 31, 2023 and 2022.

### Pension Benefit Guarantee Corporation

On August 1, 2013, the PBGC assumed responsibility for the KidsPeace Defined Benefit Plan assets and began to distribute the monthly payments to participants. For the remainder of 2013 and up to July 31, 2014, the date of KidsPeace's exit from Chapter 11, KidsPeace and the PBGC had been in negotiation to voluntarily agree on a settlement amount for the PBGC's assumption of the assets and obligations of the Defined Benefit Plan. With the transfer of the Defined Benefit Plan obligations that existed prior to bankruptcy to the PBGC, KidsPeace assumed an interest-free obligation to the PBGC in the amount of \$13,050,000, with annual payments ranging from \$675,000 to \$900,000 through July 31, 2029. KidsPeace made principal payments of \$900,000 during both 2023 and 2022. As part of the agreement, the PBGC acquired Lien Notes to certain real and personal property to the maximum extent of \$5,727,115. KidsPeace has met all of its payment obligations in satisfaction of this agreement to date.

# KIDSPACE CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2023 AND 2022

### Certificates of Participation, Georgia

In December 2003, KPGA issued Certificates of Participation (Certificates) in two separate series totaling \$3,600,000. Certificates totaling \$3,240,000 constitute Series A and Certificates totaling \$360,000 constituted Series B with no USDA guarantee. The Certificates were scheduled to mature on various dates through December 1, 2028.

KPGA emerged from Chapter 11 on May 1, 2015, at which time an amended and restated Loan Agreement for the Certificates, in the amount of \$1,350,000, to replace the prior Series A and Series B Certificates, was entered into, with monthly principal payments of \$7,247 beginning June 1, 2015 through May 1, 2045, with interest at 5 percent. Upon exit from Chapter 11, KPGA realized a net gain on pre-filing liability extinguishment of approximately \$1,540,000, primarily related to the restructuring of the Certificates and to a lesser extent, the settlement of unsecured creditor claims. In the event that KPGA refinances the obligation, sells or leases the Bowdon Campus within defined periods of time, then the Georgia Bondholders would be entitled to revised settlement amounts in full satisfaction of claims. Since this Agreement was established, KidsPeace has met its monthly repayment obligations. At December 31, 2023 and 2022, the outstanding balance on the certificate was \$1,139,387 and \$1,168,586, respectively.

### Debt Maturities

Annual principal maturities of debt are as follows:

	<u>PBGC Obligation</u>	<u>Revenue Bonds and Certificates of Participation</u>	<u>Other Notes and Mortgages</u>	<u>Total</u>
Term debt				
2024	\$ 900,000	\$ 403,181	\$ -	\$ 1,303,181
2025	900,000	432,691	-	1,332,691
2026	900,000	464,377	-	1,364,377
2027	900,000	496,814	-	1,396,814
2028	900,000	531,672	-	1,431,672
Thereafter	<u>645,235</u>	<u>26,196,719</u>	-	<u>26,841,954</u>
Total	<u>\$ 5,145,235</u>	<u>\$ 28,525,454</u>	<u>\$ -</u>	<u>\$ 33,670,689</u>



# KIDSPeACE CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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### 8. Leases

KidsPeace leases office space and equipment used in operations. For many of these leases, KidsPeace is responsible for paying property taxes and maintenance and repair costs. The leases generally have initial lease terms of two to five years and typically include one or more options to renew, with renewal terms that generally extend the lease term for an additional one to three years. KidsPeace assesses renewal options using a "reasonably certain" threshold, which is understood to be a high threshold. For leases where KidsPeace is reasonably certain to exercise its renewal option, the option periods are included within the lease term and, therefore, the measurement of the right-of-use asset and lease liability. The payment structure of KidsPeace leases generally include annual escalation clauses that are either fixed or variable in nature. Leases with an initial term of 12 months or less are not recorded on the consolidated balance sheet and expenses for these leases are recognized on a straight-line basis over the lease term as an operating expense.

KidsPeace makes certain assumptions and judgements in determining the discount rate, as most leases do not provide an implicit rate. KidsPeace uses their incremental borrowing rate, for collateralized borrowing, based on information available at the commencement date in determining the present value of lease payments.

Subsequent to the lease commencement date, KidsPeace reassesses lease classification when there is a contract modification that is accounted for as a separate contract, a change in the lease term, or a change in the assessment of whether the lessee is reasonably certain to exercise an option to purchase the underlying asset or terminate the lease.

Future minimum future payments under operating leases at December 31, 2023 are as follows:

<u>Years ending December 31:</u>		
	2024	\$ 471,972
	2025	460,958
	2026	246,861
	2027	<u>127,258</u>
Total		1,307,049
Less amount representing interest		<u>(184,264)</u>
Present value of net minimum lease payments		<u>\$ 1,122,785</u>

# KIDSPeACE CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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Total lease costs are comprised of the following in 2023 and 2022:

Lease cost:	2023	2022
Operating lease cost	\$ 534,622	\$ 910,847
Short-term and variable lease costs	489,080	571,409
	<u>\$ 1,023,702</u>	<u>\$ 1,482,256</u>

	2023	2022
Other information:		
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	\$ 534,622	\$ 910,847
Right-of-use assets obtained in exchange for new:		
Operating lease liabilities	983,843	-
Weighted-average remaining lease term:		
Operating leases	2.8 years	2.2 years
Weighted-average discount rate:		
Operating leases	5%	5%

## 9. Employee Benefit Plans

### Defined Benefit Plans

KidsPeace had a qualified Defined Benefit Plan covering its full-time employees that were plan participants prior to the plan curtailment effective January 1, 2009. On September 16, 2011, KidsPeace management met with representatives of the PBGC to discuss the Pension Plan and restructuring initiative. On August 1, 2013, the PBGC took over the Defined Benefit Plan's assets and began to distribute the monthly payments to participants.

The Defined Benefit Plan was terminated with a termination date of March 31, 2012 and was trusted to the PBGC on April 1, 2013. In accordance with KidsPeace's exit from Chapter 11 protection, effective July 31, 2014, the Defined Benefit Plan obligations were assumed by the PBGC. The settlement included (i) a payment by KidsPeace of \$450,000, at closing; (ii) the assignment of Defined Benefit Plan related cash and cash equivalents in the amount of \$2,800,000 post closing; and (iii) KidsPeace is obligated to paying quarterly amounts of \$225,000 having commenced in 2015 concluding in 2029, with these quarterly payments totaling \$13,050,000. See Note 7.

# KIDSPeACE CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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### Defined Contribution Plan

KidsPeace offers a defined contribution 403(b) plan (403b Plan) to all employees whereby employees can elect to defer pre-tax savings into the 403b Plan, subject to annual maximum amounts determined by law. The 403b Plan provides for discretionary employer contributions, no such contributions were made during 2023 or 2022.

## **10. Self-Insurance Plans**

KidsPeace has a self-insured medical expense reimbursement plan, which covers all full-time employees. Under this plan, KidsPeace annually will pay up to \$250,000 of covered medical expenses for each employee and has insurance to cover any expenses exceeding the \$250,000 annual limit. The cost of the plan amounted to \$13,347,448 and \$11,480,821 for 2023 and 2022, respectively. The associated liability amounted to approximately \$2,276,000 and \$1,233,000 at December 31, 2023 and 2022, respectively, which is included in accounts payable and accrued expenses on the consolidated balance sheets.

KidsPeace maintains a self-insurance arrangement for operations located in Pennsylvania, which requires that workers' compensation claims be funded directly by KidsPeace up to \$600,000 per accident or \$600,000 per employee. KidsPeace maintains insurance coverage for any expenses exceeding the self-insurance limits. The cost of this arrangement amounted to \$2,568,814 and \$1,112,941 for 2023 and 2022, respectively. The associated liability amounted to approximately \$363,000 and \$261,000 at December 31, 2023 and 2022, respectively, which is included in accounts payable and accrued expenses on the consolidated balance sheets.

KidsPeace believes it has adequate insurance coverages for all asserted claims and it has no knowledge of unasserted claims which would exceed its insurance coverages, management feels that they have adequately accrued for any incurred but not reported claims.

KidsPeace has letters of credit with a bank to secure obligations under various insurance policies. KidsPeace is required to cash collateralize these letters of credit. The secured letters of credit totaling \$2,659,236 were outstanding at December 31, 2023 and 2022, respectively, and are in place to secure obligations under various insurance policies. The letters of credit expire on varying dates between July 2024 and December 2024. The cash collateral put in place for the letters of credit was \$2,953,635 and \$2,662,894 at December 31, 2023 and 2022, respectively. The cash collateral is included in assets limited as to use, restricted cash in the consolidated balance sheets.

# KIDSPeACE CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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### 11. Concentration of Credit Risk

As of December 31, 2023 and 2022, KidsPeace had accounts receivable from clients of \$10,131,798 and \$5,339,140, respectively, from the Pennsylvania Departments of Education and Human Services. KidsPeace derives substantially all of its revenues from state, county and local educational entities. KidsPeace extends credit to its customers and, generally, requires no collateral. For the years ended December 31, 2023 and 2022, KidsPeace derived \$59,526,175 (43 percent of total) and \$51,381,722 (40 percent of total) respectively, of revenues from operations from various state Medicaid payors.

### 12. Commitments and Contingencies

#### Professional Liability

KidsPeace is insured under a claims-made policy for professional liability. Based upon known claims and historical loss experience, management has recorded an undiscounted liability for estimated losses from professional liability claims reported and incurred but not reported claims as well as tail liability coverage. The estimated current liability amounted to \$1,695,000 and \$1,530,000 at December 31, 2023 and 2022, respectively, and is included in other liabilities in the consolidated balance sheets.

#### Contingencies

In conducting its activities, KidsPeace from time to time is the subject of various claims arising from the ordinary course of business. In the opinion of management, the ultimate resolution of such claims is not expected to have a material adverse effect upon the financial position or changes in net assets of KidsPeace.

A significant portion of the net client service revenues is derived from programs administered by various federal, state and local governmental agencies. Accordingly, KidsPeace is subject to regulatory requirements imposed by the governmental agencies. Revenues under certain of these programs are subject to examination and retroactive adjustment. Estimates have been made for adjustments that may result from such examinations; however, the estimated amounts recorded could differ from actual settlements based on the results of governmental examinations. In the opinion of management, adequate provision has been made for estimated settlements and potential adjustments from those examinations.

KidsPeace is subject to numerous laws and regulations of federal, state and local governments. Compliance with these laws and regulations can be subject to government review and

# KIDSPEACE CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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interpretation, as well as regulatory actions unknown and unasserted at this time. Recently, government activity in the health care industry has increased with respect to investigations and allegations concerning possible violations of regulations by health care providers, which could result in the imposition of significant fines and penalties, as well as significant repayments of previously billed and collected revenues of client services.

### Commitments

KidsPeace has entered into a construction contract with a construction contractor in the approximate amount of \$2 million for campus improvements and updates. As of December 31, 2023 there is approximately \$1.1 million left on the construction contract.

### **13. Functional Expenses**

KidsPeace provides services to individuals from around the country. The costs of providing the various programs and other activities have been summarized on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Costs not directly attributable to a function, including depreciation and amortization, interest and other occupancy costs, are allocated to a function based on a square footage basis.

# KIDSPACE CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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Expenses related to providing these services are as follows for the years ended December 31:

	2023			
	Program Services	General and Administrative	Fundraising	Total
Salaries and wages	\$ 73,425,145	\$ 6,998,979	\$ 214,638	\$ 80,638,762
Employee benefits and taxes	20,531,298	1,446,245	42,722	22,020,265
Professional fees	1,676,376	783,244	4,051	2,463,671
Foster Care payments	5,845,722	-	-	5,845,722
Medical expenses	590,181	142,854	-	733,035
Transportation	968,864	48,738	8,812	1,026,414
Insurance	3,760	2,514,460	-	2,518,220
Utilities	1,515,195	94,816	1,081	1,611,092
Repairs and maintenance	2,304,562	2,623,736	4,415	4,932,713
Interest expense	3,098,839	228,300	-	3,327,139
Bad debt expense	2,260,519	-	-	2,260,519
Other operating expenses	6,669,019	911,203	183,403	7,763,625
Depreciation	3,761,507	231,032	-	3,992,539
Total	<u>\$ 122,650,987</u>	<u>\$ 16,023,607</u>	<u>\$ 459,122</u>	<u>\$ 139,133,716</u>
	2022			
	Program Services	General and Administrative	Fundraising	Total
Salaries and wages	\$ 69,712,641	\$ 6,547,256	\$ 164,627	\$ 76,424,524
Employee benefits and taxes	17,335,831	1,311,905	28,990	18,676,726
Professional fees	1,421,924	762,136	6,069	2,190,129
Foster Care payments	6,583,659	-	421	6,584,080
Medical expenses	539,897	98,316	-	638,213
Transportation	1,042,259	36,234	6,028	1,084,521
Insurance	1,482	2,413,210	-	2,414,692
Utilities	1,619,749	109,331	910	1,729,990
Repairs and maintenance	2,109,447	2,182,271	17,798	4,309,516
Interest expense	2,388,305	287,759	-	2,676,064
Bad debt expense(recovery)	(780,766)	-	-	(780,766)
Other operating expenses	6,056,648	1,017,266	451,963	7,525,877
Depreciation	3,805,467	391,680	-	4,197,147
Total	<u>\$ 111,836,543</u>	<u>\$ 15,157,364</u>	<u>\$ 676,806</u>	<u>\$ 127,670,713</u>

# KIDSPeACE CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2023 AND 2022

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### 14. Liquidity and Availability

Financial assets available for general expenditure within one year of the balance sheet date, consist of the following at December 31:

	<u>2023</u>	<u>2022</u>
Cash and cash equivalents	\$ 4,745,505	\$ 5,208,171
Accounts receivable, net	<u>30,898,783</u>	<u>24,573,964</u>
Total	<u>\$ 35,644,288</u>	<u>\$ 29,782,135</u>

In addition to the assets above, KidsPeace has assets designated by the Board of \$57,138 and \$1,324,127 at December 31, 2023 and 2022, respectively, that may be made available upon Board action. KidsPeace has other assets limited as to use that are externally designated, or under bond indenture agreements. These assets are not available for general expenditure within the next year and are not reflected in the amounts above.

As part of KidsPeace liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due. In addition, KidsPeace has a line of credit as described in Note 6. KidsPeace sold two unused properties in January 2023 for \$1,375,000 and has negotiated higher rates with its payors to increase cash inflows during 2023.

### 15. Subsequent Events

KidsPeace evaluated its December 31, 2023 consolidated financial statements for subsequent events through the date the consolidated financial statements were issued. Except as noted elsewhere, KidsPeace is not aware of any other subsequent events which require recognition or disclosure in the consolidated financial statements.

## **SUPPLEMENTARY INFORMATION**



# KIDSPeACE CORPORATION AND SUBSIDIARIES

## CONSOLIDATING BALANCE SHEET SCHEDULE

DECEMBER 31, 2023

(With Comparative Totals at December 31, 2022)

	KidsPeace	KidsPeace	KidsPeace	KidsPeace	KidsPeace	KidsPeace	Total Bond	Continued	KidsPeace	Eliminations	Consolidated		
	Corporation	Foundation	National Centers, Inc.	Children's Hospital, Inc.	National Centers of New England	National Centers of North America, Inc.					Obligated Group	Operations Total Bond Obligated Group	National Centers of Georgia, Inc.
<b>Assets</b>													
<b>Current assets:</b>													
Cash and cash equivalents	\$ 4,707,987	\$ -	\$ 15,600	\$ 1,500	\$ 7,418	\$ 5,150	\$ -	\$ 4,737,655	\$ 4,737,655	\$ 7,850	\$ -	\$ 4,745,505	\$ 5,208,171
Accounts receivable from clients, net	-	-	4,166,983	9,559,257	867,424	691,701	-	15,285,365	15,285,365	33,488	-	15,318,853	11,838,586
Accounts receivable from grants and contracts	2,518,696	-	8,377,825	(157,900)	1,537,123	2,306,512	-	14,582,256	14,582,256	790,199	-	15,372,455	12,210,779
Accounts receivable, other	149,392	58,083	-	-	-	-	-	207,475	207,475	-	-	207,475	524,599
<b>Assets limited as to use:</b>													
Restricted cash	2,902,178	-	-	-	-	-	-	2,902,178	2,902,178	51,457	-	2,953,635	2,662,894
Other current assets	3,327,349	-	1,905	-	66,543	43,924	-	3,439,721	3,439,721	55,725	-	3,495,446	3,052,580
Total current assets	13,605,602	58,083	12,562,313	9,402,857	2,478,508	3,047,287	-	41,154,650	41,154,650	938,719	-	42,093,369	35,497,609
Due from Subsidiaries	33,022,671	7,209,833	-	-	324,866	4,902,481	(38,877,955)	6,581,896	6,581,896	-	(6,581,896)	-	-
<b>Noncurrent assets:</b>													
<b>Assets limited as to use:</b>													
Internally designated by board for certain activities	57,138	-	-	-	-	-	-	57,138	57,138	-	-	57,138	1,324,127
Held by Trustees	2,692,344	-	-	-	-	-	-	2,692,344	2,692,344	29,616	-	2,721,960	2,608,930
Property and equipment, net	21,764,569	-	-	-	1,527,055	-	-	23,291,624	23,291,624	5,394,710	-	28,686,334	29,727,665
Right-of-use assets	-	-	244,968	-	672,700	205,118	-	1,122,786	1,122,786	-	-	1,122,786	1,047,128
Other long-term assets	400,000	-	-	-	-	-	-	400,000	400,000	-	-	400,000	400,000
Total Assets	\$71,542,324	\$ 7,267,916	\$ 12,807,281	\$ 9,402,857	\$ 5,003,129	\$ 8,154,886	\$ (38,877,955)	\$ 75,300,438	\$ 75,300,438	\$ 6,363,045	\$ (6,581,896)	\$75,081,587	\$70,605,459
<b>Liabilities and Net Assets</b>													
<b>Liabilities:</b>													
<b>Current liabilities:</b>													
Line of credit borrowing	\$13,098,621	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 13,098,621	\$ 13,098,621	\$ -	\$ -	\$ 13,098,621	\$ 9,916,217
Accounts payable and accrued expenses	9,602,986	29,129	3,104,594	1,219,698	1,179,558	608,101	-	15,744,066	15,744,066	472,334	-	16,216,400	16,069,365
Refundable advances	-	-	3,163,619	69,703	-	-	-	3,233,322	3,233,322	-	-	3,233,322	1,567,698
Operating lease liability	-	-	142,983	-	260,853	205,117	-	608,953	608,953	-	-	608,953	599,488
Accrued interest payable	555,848	-	-	-	-	-	-	555,848	555,848	4,920	-	560,768	570,151
Current portion of long-term debt	1,272,616	-	-	-	-	-	-	1,272,616	1,272,616	30,565	-	1,303,181	1,286,174
Total current liabilities	24,530,071	29,129	6,411,196	1,289,401	1,440,411	813,218	-	34,513,426	34,513,426	507,819	-	35,021,245	30,009,093
<b>Noncurrent liabilities:</b>													
Due to KidsPeace Corporation	-	-	25,343,174	13,534,781	-	-	(38,877,955)	-	-	6,581,896	(6,581,896)	-	-
Operating lease liabilities	-	-	101,985	-	411,847	-	-	513,832	513,832	-	-	513,832	444,853
Long-term debt, net of current position	31,297,295	-	-	-	-	-	-	31,297,295	31,297,295	1,070,213	-	32,367,508	32,939,473
Other liabilities	1,695,000	-	-	-	-	-	-	1,695,000	1,695,000	-	-	1,695,000	1,530,000
Total noncurrent liabilities	32,992,295	-	25,445,159	13,534,781	411,847	-	(38,877,955)	33,506,127	33,506,127	7,652,109	(6,581,896)	34,576,340	34,914,326
Total Liabilities	57,522,366	29,129	31,856,355	14,824,182	1,852,258	813,218	(38,877,955)	68,019,553	68,019,553	8,159,928	(6,581,896)	69,597,585	64,923,419
<b>Net Assets:</b>													
Net assets without donor restrictions	14,019,958	6,755,952	(19,049,074)	(5,421,325)	3,150,871	7,341,668	-	6,798,050	6,798,050	(1,796,883)	-	5,001,167	4,328,409
Net assets with donor restrictions	-	482,835	-	-	-	-	-	482,835	482,835	-	-	482,835	1,353,631
Total net assets	14,019,958	7,238,787	(19,049,074)	(5,421,325)	3,150,871	7,341,668	-	7,280,885	7,280,885	(1,796,883)	-	5,484,002	5,682,040
Total Liabilities and Net Assets	\$71,542,324	\$ 7,267,916	\$ 12,807,281	\$ 9,402,857	\$ 5,003,129	\$ 8,154,886	\$ (38,877,955)	\$ 75,300,438	\$ 75,300,438	\$ 6,363,045	\$ (6,581,896)	\$75,081,587	\$70,605,459

# KIDSPACE CORPORATION AND SUBSIDIARIES

## CONSOLIDATING SCHEDULE OF OPERATIONS AND CHANGES IN NET ASSETS

FOR THE YEAR ENDED DECEMBER 31, 2023

(With Comparative Totals at December 31, 2022)

	KidsPeace Corporation	KidsPeace Foundation	KidsPeace National Centers, Inc.	KidsPeace Children's Hospital, Inc.	KidsPeace National Centers of New England, Inc.	KidsPeace National Centers of North America, Inc.	Eliminations	Total Bond Obligated Group	KidsPeace National Centers of Georgia, Inc.	Eliminations	Consolidated	
											2023	2022
<b>Revenues, Gains and Other Support</b>												
Net client service revenue	\$ -	\$ -	\$ 21,379,994	\$ 30,434,180	\$ 9,999,606	\$ 9,365,397	\$ -	\$ 71,179,177	\$ 304,998	\$ -	\$ 71,484,175	\$ 63,219,027
Grants and contract revenue	1,729,024	790,882	37,948,575	536,374	6,183,045	9,499,888	-	56,687,788	6,702,785	-	63,390,573	59,809,613
PPP Loan grant revenue	-	-	-	-	-	-	-	-	-	-	-	2,000,000
Contributions	-	730,439	130,080	-	-	698	-	861,217	-	-	861,217	588,156
Donated services	-	121,880	-	-	-	-	-	121,880	-	-	121,880	105,802
Other revenue	9,694,145	-	22,683	426,317	219,706	-	(7,809,959)	2,552,892	185,663	(63,162)	2,675,393	894,047
Physician fees	4,160,179	-	-	-	-	-	(4,160,179)	-	-	-	-	-
Management fees	21,278,419	295,702	-	-	-	-	(20,883,031)	691,090	-	(691,090)	-	-
Net assets released from restrictions for operations	-	1,185,740	-	-	-	-	-	1,185,740	-	-	1,185,740	503,734
<b>Total revenues, gains and other support</b>	<b>36,861,767</b>	<b>3,124,643</b>	<b>59,481,332</b>	<b>31,396,871</b>	<b>16,402,357</b>	<b>18,865,983</b>	<b>(32,853,169)</b>	<b>133,279,784</b>	<b>7,193,446</b>	<b>(754,252)</b>	<b>139,718,978</b>	<b>127,120,379</b>
<b>Expenses:</b>												
Salaries and wages	14,138,640	214,638	29,566,866	14,502,252	10,200,693	7,310,181	-	75,933,270	4,705,492	-	80,638,762	76,424,524
Employee benefits and related taxes	3,379,522	42,723	8,538,635	3,901,284	2,827,272	1,799,970	-	20,489,406	1,530,859	-	22,020,265	18,676,726
Professional fees	868,753	6,598	1,005,238	10,925	300,449	55,347	-	2,247,310	216,361	-	2,463,671	2,190,129
Physician Fees	-	-	1,909,162	2,248,946	2,071	-	(4,160,179)	-	-	-	-	-
Foster care payment expense to families	-	2,827	1,335,527	-	180,341	4,327,027	-	5,845,722	-	-	5,845,722	6,584,080
Medical supplies and drugs	142,613	-	273,632	283,705	16,314	4,694	-	720,958	12,077	-	733,035	638,213
Transportation	205,340	8,812	282,179	97,768	166,868	243,799	-	1,004,766	21,648	-	1,026,414	1,084,521
Insurance	2,516,740	-	-	1,257	-	223	-	2,518,220	-	-	2,518,220	2,414,692
Utilities	135,893	1,081	676,861	286,529	247,962	88,415	-	1,436,741	174,351	-	1,611,092	1,729,990
Repairs and maintenance	3,301,482	37,228	647,997	461,362	257,565	119,778	-	4,825,412	107,301	-	4,932,713	4,309,516
Depreciation	3,179,607	-	-	-	284,725	-	-	3,464,332	528,207	-	3,992,539	4,197,147
Interest	3,268,858	-	-	-	-	-	-	3,268,858	58,281	-	3,327,139	2,676,064
Provisions for credit losses	-	-	957,023	836,257	455,292	14,053	-	2,262,625	(2,106)	-	2,260,519	(780,766)
Other operating expenses	1,599,461	468,007	3,668,683	733,626	1,260,399	879,292	(1,404,957)	7,204,511	559,118	-	7,763,629	7,525,873
Management fee	-	-	9,946,402	6,533,419	1,821,342	2,581,868	(20,883,031)	-	691,090	(691,090)	-	-
Facility lease	-	-	3,776,435	2,180,969	208,084	239,514	(6,405,002)	-	63,162	(63,162)	-	-
<b>Total expenses</b>	<b>32,736,909</b>	<b>781,914</b>	<b>62,584,640</b>	<b>32,078,299</b>	<b>18,229,377</b>	<b>17,664,161</b>	<b>(32,853,169)</b>	<b>131,222,131</b>	<b>8,665,841</b>	<b>(754,252)</b>	<b>139,133,720</b>	<b>127,670,709</b>
Income (loss) from operations	4,124,858	2,342,729	(3,103,308)	(681,428)	(1,827,020)	1,201,822	-	2,057,653	(1,472,395)	-	585,258	(550,330)
<b>Change in net assets without donor restrictions nonoperating</b>												
Net assets released from restrictions due to acquisition of long-lived assets	-	87,496	-	-	-	-	-	87,496	-	-	87,496	164,012
Change in net assets from non-operating activities	-	87,496	-	-	-	-	-	87,496	-	-	87,496	164,012
Change in net assets without donor restrictions	4,124,858	2,430,225	(3,103,308)	(681,428)	(1,827,020)	1,201,822	-	2,145,149	(1,472,395)	-	672,754	(386,318)
<b>Change in net assets with donor restrictions</b>												
Contributions and grants	-	402,440	-	-	-	-	-	402,440	-	-	402,440	876,541
Net assets released from restrictions due to acquisition of long-lived assets	-	(87,496)	-	-	-	-	-	(87,496)	-	-	(87,496)	(164,012)
Release of other restrictions	-	(1,185,740)	-	-	-	-	-	(1,185,740)	-	-	(1,185,740)	(503,734)
Change in net assets with donor restrictions	-	(870,796)	-	-	-	-	-	(870,796)	-	-	(870,796)	208,795
Change in net assets	4,124,858	1,559,429	(3,103,308)	(681,428)	(1,827,020)	1,201,822	-	1,274,353	(1,472,395)	-	(198,042)	(177,523)
<b>Net Assets:</b>												
Beginning of year	9,895,100	5,679,358	(15,945,766)	(4,739,897)	4,977,891	6,139,846	-	6,006,532	(324,488)	-	5,682,044	5,859,567
End of year	\$ 14,019,958	\$ 7,238,787	\$ (19,049,074)	\$ (5,421,325)	\$ 3,150,871	\$ 7,341,668	\$ -	\$ 7,280,885	\$ (1,796,883)	\$ -	\$ 5,484,002	\$ 5,682,044