

Cornerstone Behavioral Healthcare

Section 18. Financial Management

A. Financial Accountability and Viability: Cornerstone Behavioral Healthcare (CBH) uses sound financial management practices and generally accepted accounting principles that are consistent with legal and regulatory requirements. CBH applies GAAP accounting practices to all of its accounting procedures.

- 1. Cash and Cash Equivalents:** These accounts are recorded at fair market values and are reconciled and adjusted monthly.
- 2. Fixed Assets:** are recognized on the balance sheet when they meet the criteria for recognition, which typically involves control over the asset, future economic benefits, and measurable costs. Fixed assets are initially recorded at cost, which includes all costs necessary to acquire and prepare the asset for its intended use. To be classified as a fixed asset the asset has to have a value of \$1,000.00 or greater and have an economic life greater than twelve months. This includes purchase price, shipping and handling costs, installation costs, and any other direct attributable costs. After initial recognition, fixed assets are typically reported at historical cost less accumulated depreciation. Fixed assets with finite useful lives are subject to depreciation. GAAP requires entities to use a systematic and rational method to allocate the cost of the asset over its useful life. Common depreciation methods include straight-line, declining balance, and units of production. CBH uses straight-line depreciation for fixed assets unless an alternative method is deemed more appropriate. When a fixed asset is disposed of, GAAP requires recognition of any gain or loss on disposal, which is calculated as the difference between the proceeds from disposal and the carrying amount of the asset.
- 3. Short-Term Liabilities:** Short-term liabilities, also known as current liabilities, are obligations that are expected to be settled within one year or within the operating cycle of the business, whichever is longer. Short-term liabilities are recognized on the balance sheet when they meet the criteria for recognition. This typically occurs when there is an obligation to transfer economic benefits arising from past transactions, and the amount can be reliably measured. Short-term liabilities are typically measured at their face value, which is the amount of cash or other consideration that would be required to settle the obligation on the reporting date. Interest expense related to short-term liabilities such as short-term loans, lines of credit, or accounts payable is recognized in the income statement as it accrues over the reporting period. GAAP requires entities to accrue certain expenses related to short-term liabilities that have been incurred but not yet paid. Examples include accrued salaries and wages, accrued taxes, and accrued utilities. Short-term liabilities are presented separately from long-term liabilities on the balance sheet. They are listed in order of maturity, with the most imminent liabilities appearing first. Entities are required to disclose significant information about their short-term liabilities in the financial statements, including the nature and amount of the liabilities, maturity dates, and any related terms and conditions.
- 4. Long-Term Liabilities:** Long-term liabilities are obligations that are not expected to be settled within one year or the normal operating cycle of the business, whichever is longer. GAAP provides guidelines for the accounting treatment of long-term liabilities. Long-term liabilities are recognized on the balance sheet when they meet the criteria for recognition. This typically occurs when there is an obligation to transfer economic benefits arising from past transactions, and the amount can be reliably measured. Long-

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term liabilities are typically measured at their present value, which is the current value of the future cash flows required to settle the obligation at the reporting date. Present value calculations consider factors such as the timing and uncertainty of future cash flows and the prevailing market interest rates. Interest expense related to long-term liabilities such as bonds payable, long-term loans, or mortgages is recognized in the income statement as it accrues over the reporting period. Interest expense is typically calculated using the effective interest method, which amortizes any discounts or premiums on the liability and recognizes interest expense based on the carrying amount of the liability and the effective interest rate. If a long-term liability was issued at a discount or premium, GAAP requires entities to amortize the discount or premium over the term of the liability using the effective interest method. This results in an adjustment to the carrying amount of the liability over time. CBH discloses information about the maturity dates and terms of their long-term liabilities in the notes to the financial statements. Long-term liabilities are presented separately from short-term liabilities on the balance sheet. They are listed after short-term liabilities and may be further categorized into specific types such as bonds payable, long-term loans, or deferred tax liabilities.

5. **Equity:** CBH's equity shows the net equity of the agency and is reconciled monthly. Net equity is calculated by the total revenue less total expenses of the organization.
6. **Revenues:** CBH ensure consistency, comparability, and transparency in revenue recognition across different entities. The key principles and requirements for revenue recognition under GAAP are outlined in the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 606, Revenue from Contracts with Customers. Revenue recognition under GAAP begins with identifying contracts with customers. A contract exists when there is an agreement between parties that creates enforceable rights and obligations. Revenue is recognized based on the satisfaction of performance obligations. A performance obligation is a promise to transfer a distinct good or service to the customer. Revenue is recognized as each performance obligation is satisfied, either over time or at a point in time. The transaction price is the amount of consideration that an entity expects to receive in exchange for transferring goods or services to a customer. The transaction price is allocated to each performance obligation based on its standalone selling price. CBH is a fee for service based organization and holds contracts with multiple entities to provide Behavioral Services across multiple programs. Revenue is measured at the time service is provided to our clients. Any discounts, adjustments or write-offs are estimated at the time of service and applied to the revenue recognition. Where necessary CBH provides disclosures about revenue recognition policies, significant judgments and estimates, disaggregated revenue information, and contract balances in the financial statements and accompanying notes.
7. **Expenses:** CBH expense recognition ensures that financial statements accurately reflect the entity's financial performance during a specific period. CBH requires expenses to be recognized in the same period as the revenues they help to generate. This ensures that expenses are matched with the revenues to which they are directly related. CBH uses accrual basis accounting, where expenses are recognized when they are incurred, regardless of when the associated cash payments are made. This ensures that expenses are recognized when the economic resources are consumed or obligations are incurred, rather than when cash is paid. CBH requires consistency in expense recognition methods within

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an entity and over time. Consistent application of accounting policies ensures comparability of financial information across different reporting periods and facilitates meaningful analysis of trends. Expenses may be recognized using various methods depending on the nature of the expense: Operating expenses, such as salaries, rent, utilities, and supplies, are recognized as they are incurred during the normal course of business operations. Depreciation expense for tangible assets and amortization expense for intangible assets are recognized over their useful lives using appropriate methods (e.g., straight-line, accelerated). Interest expense on borrowings is recognized over the borrowing period based on the effective interest method. CBH will disclose significant information about expenses in the financial statements and accompanying notes if necessary and appropriate.

B. Management Systems

1. General Ledger

- a. The GL is the central repository for financial data, recording all financial transactions and supports the financial statement preparation and reporting.
- b. The accounting department is responsible for entering daily transactions, monthly reconciliations and preparing monthly financial statements.
- c. The accounting department is supervised by the CEO or designee.

2. Accounts Payable and Receivable

- a. Manages outgoing payments to suppliers and incoming payments from customers.
- b. Ensures timely processing of invoices and effective cash flow management.
- c. Accounts Payables are managed by the Accounting Department.
- d. Accounts Receivables are managed by the Billing Department.
- e. Invoices are entered by billing or accounts payable staff into the Billing or Accounting software daily. Client or third-party receipts are also entered daily into both the Accounting Software and Billing Software by Billing Staff and AP Staff. All Accounts are then reconciled by senior billing staff or managers on a monthly or as needed basis.

3. Budgeting and Forecasting

- a. Tools for planning and predicting financial performance.
- b. Supports the creation, approval, and monitoring of budgets.
- c. The CEO is responsible for creating an annual budget for all departments of the agency. The CEO works with coordination of managers and other departments to estimate the annual budgets by departments.

4. Asset and Expense Management

- a. Tracks and manages the organization's assets, including depreciation and asset lifecycle. To be identified as an asset of the agency the item must have a life cycle greater than 12 months and a value greater than \$1,000.00. Any item that doesn't qualify for asset management is classified as an Office or Program Supply (Expense) and is managed by our contracts and purchasing staff.
- b. Ensures accurate asset valuation and reporting, and tracks and controls the organizations expenses.
- c. The CEO, Facility, and IT Departments are responsible for managing CBH's assets.
 - CEO - responsible for managing the vehicles; registration maintenance

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and safe operations.

- Facility Department is responsible for buying and receiving all non-technological assets of the agency, like furniture and other items.
 - IT department is responsible for obtaining, managing, and maintaining all technological assets at the CBH.
- d. Accounts payable, contracts and purchasing staff, and CEO are responsible for expense management.

5. Cash or Cash Equivalents Management

- a. Manages the organization's cash flow, bank reconciliations, and liquidity.
- b. Helps in optimizing cash reserves and investment planning.
- c. The CEO or Clinical Director is responsible for cash management. All cash disbursements must be approved by the CEO or Clinical Director in the CEO's absence.
- d. All cash or cash equivalents needed for daily operations will be held at a FDIC insured financial institution. Any long-term cash reserves or investments may be held by a reputable financial investment institution in low-risk investments. All cash or cash equivalent accounts will be reconciled by senior accounts payable staff or senior accounting staff monthly or as needed.
- e. Petty cash – currently CBH doesn't have a petty cash fund at either office. All petty cash purchases are made with corporate credit cards.
- f. All cash disbursements at CBH will be prepared by the Accounts Payable Department or Payroll Department and approved by the CEO or Clinical Director.

6. Financial and Compliance Reporting

- a. Generates various financial reports, including income statements, balance sheets, and cash flow statements. Ensures adherence to financial regulations and standards.
- b. Supports regulatory compliance and internal decision-making. Facilitates audit trails and regulatory reporting.
- c. The Accounting Department and CEO is responsible for financial and compliance reporting. These reports are run on a monthly scheduled after the monthly close is completed.

7. Payroll Management

- a. Automates payroll processing, tax calculations, and employee payments.
- b. Ensures compliance with labor laws and tax regulations.
- c. The HR Department and Payroll Processors are responsible for payroll processing at CBH.
- d. CBH also uses an outside vendor to process payments and report on payroll. The outside vendor is responsible for tracking benefits, W-2 Wages, employee reimbursement expenses and all payroll tax and other government reporting associated with payroll.

C. Annual Financial Audit: CBH requires an annual financial review from an independent accountant. These reports are available upon request by DHHS.

D. Client's Money: CBH will offer Representative Payee Services to clients in the future.

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- E. Fees Paid by Clients:** Clients may be responsible for fees charged by CBH.
1. Prior to service delivery, CBH will inform clients about payment requirements.
 2. The information given by CBH to the client upon admission, and as necessary thereafter, will include the following:
 - a. Posting of full fee schedule in waiting rooms, with individual copies available upon request;
 - b. Notice of estimated out-of-pocket amount, with continual communication regarding client balance and changes in out-of-pocket amount;
 - c. The amount of the fee charged for a specific service, in the case of self-pay;
 - d. The manner and timing of payment of the estimated out-of-pocket by the client;
 - e. The consequences of nonpayment of out-of-pocket; and
 - f. A copy of the program's fee-for-service policy, including the program's policy for nonpayment.

Frank Willard

CEO

09/09/2025

Date