

LAKESHORE FOUNDATION AND AFFILIATES

**Consolidated Financial Statements and
Supplementary Information**

**For the Years Ended
September 30, 2023 and 2022**

LAKESHORE FOUNDATION AND AFFILIATES

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Lakeshore Foundation and Affiliates

Report on the Audit of the Financial Statements***Opinion***

We have audited the accompanying consolidated financial statements of Lakeshore Foundation and Affiliates (a nonprofit organization), which comprise the consolidated statement of financial position as of September 30, 2023, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Lakeshore Foundation and Affiliates as of September 30, 2023, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

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

- Exercise professional 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 Lakeshore Foundation and Affiliates' internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Lakeshore Foundation and Affiliates' ability to continue as a going concern for a reasonable period of time.

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

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 27, 2023, on our consideration of Lakeshore Foundation and Affiliates' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Lakeshore Foundation and Affiliates' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Lakeshore Foundation and Affiliates' internal control over financial reporting and compliance.

Report on Summarized Comparative Information

We have previously audited Lakeshore Foundation and Affiliates' 2022 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated January 9, 2023. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2022, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.



Borland Benefield, P.C.
Birmingham, Alabama
December 27, 2023

LAKESHORE FOUNDATION AND AFFILIATES

**Consolidated Statement of Financial Position
As of September 30, 2023 and 2022**

	2023	2022
Assets		
Current Assets		
Cash and cash equivalents	\$ 1,878,732	\$ 1,261,575
Short-term investments	440,353	834,004
Pledges receivable - net of allowance for uncollectible pledges of \$7,000 and \$5,000 in 2023 and 2022	74,482	285,876
Accounts receivable	333,613	469,976
Interest receivable	26,988	32,276
Retirement plan assets	577,045	508,162
Prepaid expenses and other	74,201	153,026
Total Current Assets	3,405,414	3,544,895
Long-Term Assets		
Investments	71,512,804	68,690,835
Restricted cash	125,378	656,007
Pledges receivable - net of allowance for uncollectible pledges of \$500 in 2023 and \$4,500 in 2022	3,957	30,933
Property, plant and equipment, net	34,875,931	35,049,836
Initial cost of lease - net of accumulated amortization of \$21,424 in 2023 and \$16,531 in 2022	45,347	50,239
Right-of-use assets - net of accumulated amortization of \$107,747 in 2023 and \$80,463 in 2022	17,540	44,823
Total Long-Term Assets	106,580,957	104,522,673
Total Assets	\$ 109,986,371	\$ 108,067,568
Liabilities and Net Assets		
Liabilities		
Current Liabilities		
Accounts payable	\$ 361,028	\$ 327,611
Other accrued liabilities	1,156,452	1,231,254
Accrued interest	93,153	106,137
Deferred revenue	122,845	192,281
Current portion of long-term debt	1,807,252	1,786,122
Total Current Liabilities	3,540,730	3,643,405
Long-term debt, less current maturities	7,880,892	9,672,272
Total Liabilities	11,421,622	13,315,677
Net Assets		
Without donor restrictions	97,873,416	94,124,266
With donor restrictions	691,333	627,625
Total Net Assets	98,564,749	94,751,891
Total Liabilities and Net Assets	\$ 109,986,371	\$ 108,067,568

See accompanying notes to financial statements.

LAKESHORE FOUNDATION AND AFFILIATES

**Consolidated Statement of Activities and Change in Net Assets
For the Year Ended September 30, 2023
With Summarized Financial Information
For the Year Ended September 30, 2022**

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>	<u>2022</u>
Public Support and Revenues				
Contributions, grants and sponsorships	2,848,833	\$ 420,855	\$ 3,269,688	\$ 3,069,862
Fundraising events	114,260	-	114,260	10,000
Contributions of nonfinancial assets	41,107	-	41,107	35,062
Memberships	621,212	-	621,212	552,129
Fees and contracts	154,064	-	154,064	203,246
Rental income	4,703,992	-	4,703,992	4,579,281
Investment income, net	520,417	-	520,417	435,295
Unrealized gain/(loss) on investments	7,245,111	-	7,245,111	(13,784,314)
Realized gain on sale of investments	120,100	-	120,100	652,116
Interest income	43,063	-	43,063	5,399
Other	12,874	-	12,874	7,383
Net assets released from restrictions	357,147	(357,147)	-	-
Total Public Support and Revenues	<u>16,782,180</u>	<u>63,708</u>	<u>16,845,888</u>	<u>(4,234,541)</u>
Expenses				
Program Activities	6,970,689	-	6,970,689	6,442,152
Research	1,338,362	-	1,338,362	1,962,307
Sports Science and Performance Center (SSPC)	879,687	-	879,687	-
Advocacy and Policy	434,220	-	434,220	608,232
Fundraising/Development	834,130	-	834,130	706,730
Communications	450,878	-	450,878	572,303
Management and General	1,721,787	-	1,721,787	1,582,500
Rental	403,277	-	403,277	353,612
Total Expenses	<u>13,033,030</u>	<u>-</u>	<u>13,033,030</u>	<u>12,227,836</u>
Change in Net Assets	3,749,150	63,708	3,812,858	(16,462,377)
Net Assets, Beginning of Year	<u>94,124,266</u>	<u>627,625</u>	<u>94,751,891</u>	<u>111,214,268</u>
Net Assets, End of Year	<u>\$ 97,873,416</u>	<u>\$ 691,333</u>	<u>\$ 98,564,749</u>	<u>\$ 94,751,891</u>

See accompanying notes to financial statements.

LAKESHORE FOUNDATION AND AFFILIATES

Consolidated Statement of Functional Expenses
For the Year Ended September 30, 2023
With Summarized Financial Information
For the Year Ended September 30, 2022

	Program Activities	Research	SSPC	Advocacy & Policy	Fundraising Development	Communications	Management & General	Rental	Total	2022
Expenses										
Salaries	\$ 2,435,501	\$ 803,365	\$ 253,729	\$ 158,743	\$ 289,515	\$ 272,698	\$ 1,078,152	\$ -	\$ 5,291,703	\$ 5,429,966
Benefits	511,398	173,439	56,414	35,351	64,951	62,969	237,422	-	1,141,944	1,236,933
Supplies and general expenses	168,707	7,174	5,835	36,567	5,600	3,259	14,944	37	242,123	143,129
Printing, postage and copy expenses	21,437	3,391	1,364	4,608	3,050	2,041	9,114	-	45,005	45,103
Payroll, bank fees and background checks	6,489	-	-	-	1,874	-	53,127	-	61,490	49,375
Business meals and travel	469,424	43,051	33,516	25,434	11,005	338	37,947	-	620,715	516,648
Dues, conferences and meetings	33,228	7,382	15,386	13,130	28,012	3,346	12,742	-	113,226	86,159
Legal and accounting	950	-	-	-	-	-	106,814	-	107,764	73,795
Professional fundraising	-	-	-	-	212,500	-	-	-	212,500	26,667
Strategic plan expenses	44,985	35,208	3,667	1,418	5,197	2,743	13,361	-	106,579	66,336
Purchased services	211,418	70	190,693	100,019	108,234	43,629	62,635	-	716,698	335,695
Advertising, publications and public awareness	26,652	689	3,042	16,535	9,074	12,844	57	-	68,893	113,299
Equipment	103,628	13,827	91,648	8,447	21,017	10,639	6,691	114	256,011	208,852
Telephone, internet and cable	44,639	28,517	3,636	1,546	1,873	2,238	6,606	-	89,055	71,364
Information technology	71,832	40,817	4,149	10,514	27,354	14,620	50,035	-	219,321	171,063
Landscaping	171,053	11,781	13,784	1,408	2,898	1,259	2,088	-	204,271	172,504
Laundry	5,726	394	461	47	97	42	70	-	6,837	5,789
Utilities	632,871	43,586	50,999	5,208	10,723	4,657	7,724	115,502	871,270	888,179
Interest and bond admin expense	214,027	14,740	17,247	1,761	3,626	1,575	2,610	-	255,586	300,404
Depreciation and amortization	1,303,674	89,785	105,054	10,727	22,089	9,592	15,914	106,464	1,663,299	1,655,235
Insurance	222,186	15,302	17,904	1,828	3,765	1,635	2,712	96,038	361,370	312,439
Repairs and maintenance, rental, pest control	270,864	5,844	11,159	929	1,676	754	1,022	85,122	377,370	318,902
Total Expenses	\$ 6,970,689	\$ 1,338,362	\$ 879,687	\$ 434,220	\$ 834,130	\$ 450,878	\$ 1,721,787	\$ 403,277	\$ 13,033,030	\$ 12,227,836

See accompanying notes to financial statements.

LAKESHORE FOUNDATION AND AFFILIATES

**Consolidated Statement of Cash Flows
For the Years Ended September 30, 2023 and 2022**

	<u>2023</u>	<u>2022</u>
Cash Flows from Operating Activities		
Change in net assets	\$ 3,812,858	\$ (16,462,377)
Adjustments to reconcile change in net assets to net cash (used) by operating activities:		
Net amortization of debt issue costs and bond premiums and discount	20,766	19,121
Depreciation	1,642,493	1,636,112
Unrealized (gain)/loss on investments	(7,245,111)	13,784,314
Realized gain on sale of investments	(120,100)	(652,116)
Permanently restricted contributions received	(505)	(520)
Restricted contributions for capital, net	(5,606)	(191,913)
Change in operating assets and liabilities:		
Pledges receivable, net	(6,750)	33,466
Accounts receivable	136,363	(104,191)
Interest receivable	5,287	27,463
Prepaid expenses and other	78,825	(84,631)
Accounts payable	33,416	(24,719)
Other accrued liabilities	(74,802)	43,098
Deferred revenue	(69,436)	14,954
Accrued interest payable	(12,985)	(12,760)
Net Cash (Used) by Operating Activities	<u>(1,805,287)</u>	<u>(1,974,699)</u>
Cash Flows from Investing Activities		
Purchase of investments	(33,307,828)	(43,989,068)
Proceeds from sale of investments	37,782,189	46,781,831
Net change in short-term investments	393,651	84,366
Net change in restricted cash	531,134	(355,545)
Purchases of property and equipment	(1,441,306)	(237,860)
Net Cash Provided by Investing Activities	<u>\$ 3,957,840</u>	<u>\$ 2,283,724</u>

See accompanying notes to financial statements.

LAKESHORE FOUNDATION AND AFFILIATES

**Consolidated Statement of Cash Flows (continued)
For the Years Ended September 30, 2023 and 2022**

	<u>2023</u>	<u>2022</u>
Cash Flows from Financing Activities		
Repayment of principal amounts	\$ (1,770,715)	\$ (1,722,052)
Finance lease principal payments	(15,407)	(28,727)
Restricted capital campaign, net proceeds	<u>250,726</u>	<u>454,791</u>
Net Cash (Used) by Financing Activities	<u>(1,535,396)</u>	<u>(1,295,988)</u>
Net Change in Cash and Cash Equivalents	617,157	(986,963)
Cash and Cash Equivalents, Beginning of Year	<u>1,261,575</u>	<u>2,248,538</u>
Cash and Cash Equivalents, End of Year	<u>\$ 1,878,732</u>	<u>\$ 1,261,575</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for interest	<u>\$ 262,105</u>	<u>\$ 312,552</u>

See accompanying notes to financial statements.

LAKESHORE FOUNDATION AND AFFILIATES

Notes to the Consolidated Financial Statements For the Years Ended September 30, 2023 and 2022

Note 1 – Summary of Significant Accounting Policies

Nature of Operations – The consolidated financial statements of Lakeshore Foundation (the Foundation) include the accounts of Lakeshore Foundation and its affiliates, Lakeshore Support Organization and Lakeshore National Adapted Sports Organization.

Lakeshore Foundation is a nonprofit corporation organized to provide a comprehensive range of services and activities that benefit people with physically disabling and chronic health conditions and promote disability prevention programs. Lakeshore Foundation owns rehabilitation health care facilities in Jefferson County, Alabama. Lakeshore Foundation raises, manages, and expends funds for these purposes. Lakeshore Support Organization holds and manages certain investments. Lakeshore National Adapted Sports Organization serves as the national governing body for boccia and wheelchair rugby in the United States as certified by the United States Olympic and Paralympic Committee (USOPC).

Basis of Financial Statement Preparation – The accompanying consolidated financial statements have been prepared on the accrual basis in accordance with accounting principles generally accepted in the United States of America.

Consolidated Financial Statements – The consolidated financial statements include the accounts of the Lakeshore Foundation, Lakeshore Support Organization, and Lakeshore National Adapted Sports Organization, related tax - exempt entities. The organizations share common goals and Lakeshore Foundation's Board of Directors elects the Board of Directors for the Lakeshore Support Organization. All significant intercompany account balances and transactions have been eliminated upon consolidation.

Cash and Cash Equivalents – The Foundation considers certain highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents. The Foundation maintains deposits and investments with various financial institutions that may, at times, exceed federally insured limits. However, the Foundation has not experienced any losses on such amounts, nor does management believe these amounts are exposed to any significant risks.

Contributions – The Foundation reports gifts of cash and other assets, including unconditional promises to give, as restricted support if they are received with donor stipulations that limit the use of the donated assets, unless the restrictions are met in the same reporting periods. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are released and reclassified to net assets without donor restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reflected as contributions without donor restrictions in the accompanying consolidated financial statements.

The Foundation reports gifts of land, buildings, and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets must be used and gifts of cash or other assets designated by the donor for the acquisition of long-lived assets are reported as restricted support.

Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Foundation reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service. Qualifying contributed services are recorded at their fair value in the period received.

Unrealized and realized gains and losses and dividends and interest from investing in income-producing assets may be included in either of these net assets' classifications depending on donor restrictions.

See independent auditor's report.

LAKESHORE FOUNDATION AND AFFILIATES

Notes to the Consolidated Financial Statements (continued) For the Years Ended September 30, 2023 and 2022

Note 1 – Summary of Significant Accounting Policies (continued)

Pledges Receivable – Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the net present value of their estimated future cash flows and reflected as donor restricted net assets due to inherent time restriction. Estimated future cash flows to be received after one year are discounted using a discount rate of 3.5 percent. Amortization of the discounts is included in contribution revenue.

Accounts are classified as past due based on contractual terms and invoice dates. Allowances are established on pledges estimated to be uncollectible. Accounts are written off after all efforts of collection have been exhausted.

Short-term Investments – Short-term investments consist primarily of investments in commingled fund cash equivalents and mutual funds and are reported at fair value.

Investments – Investments in equity securities with readily determinable fair values and investments in debt securities are measured at fair value. Investment income or loss (interest and dividends), realized gains and losses, and unrealized gains and losses on investments are included in the change in net assets unless the income or loss is restricted by donor or law. Investments in hedge funds and alternative investments are reported at fair value, or net asset value. Investments are not actively traded, and management intends to hold investments. As a result, investments are reported as long-term in the Consolidated Statements of Financial Position. For investments where quoted market prices are not available, the investment is reported at net asset value (Note 4). Management reviews investments for other than temporary impairments on an annual basis and records any impairment as a transfer from unrealized to realized loss on investments. Long-term investments also include certain investments in hedge funds which are recorded at the estimated underlying net asset valuation for the fund for the units held.

Property, Plant and Equipment – Property, plant and equipment are recorded at cost if purchased or at fair market value if donated. Depreciation is computed using the straight-line method over the estimated useful lives of the assets.

Estimated useful lives of property, plant and equipment are as follows:

Land improvements	15-25 years
Major moveable equipment	3-20 years
Buildings and improvements	5-40 years
Fixed equipment	10-15 years

Upon sale, retirement or other disposition of these assets, the cost and related accumulated depreciation are removed from the respective accounts, and any resulting gain or loss is recognized currently.

Impairment of Long-lived Assets – The Foundation recognizes the impairment losses on long-lived assets used in operations when indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less than the asset's carrying amount. There was no impairment loss recorded for the year ended September 30, 2023.

Borrowing Costs – Debt issue costs are capitalized and amortized over the period the related obligation is outstanding using the straight-line method, which approximates the effective interest rate method.

See independent auditor's report.

LAKESHORE FOUNDATION AND AFFILIATES

Notes to the Consolidated Financial Statements (continued) For the Years Ended September 30, 2023 and 2022

Note 1 – Summary of Significant Accounting Policies (continued)

Net Assets – The Foundation presents its activities and net assets in two classes as follows:

Net Assets Without Donor Restrictions – Net assets without donor restrictions generally result from revenues derived from providing services and receiving unrestricted contributions, less expenses incurred in providing services, raising contributions, and performing administrative functions.

Net Assets With Donor Restrictions – Net assets with donor restrictions generally result from contributions and other receipts that are subject to donor-imposed stipulations that either expire by the passage of time or can be fulfilled and removed by actions of the Foundation pursuant to those stipulations.

Revenue Recognition – Public support is recognized by the Foundation as revenue without donor restrictions or revenue with donor restrictions when pledges are received based on any stipulations by the donors. Donated assets are recorded at estimated fair value on the date received. Rental income and revenues associated with programs and memberships are recognized when earned.

Allocation of Expenses – The Foundation allocates certain expenses, including insurance, interest expense, facility operations, information and technology and depreciation and amortization, to general and administrative, fundraising/development, communications, and programs based on the square footage used by each respective department.

Tax Status – Lakeshore Foundation, Lakeshore Support Organization, and Lakeshore National Adapted Sports Organization are nonprofit organizations exempt from income tax under Section 501(c)(3) of the U.S. Internal Revenue Code (IRC).

The Lakeshore Foundation, Lakeshore Support Organization, and Lakeshore National Adapted Sports Organization have determined that they do not have any tax positions at September 30, 2023 that they would be unable to substantiate. Tax returns for the Lakeshore Foundation and the Lakeshore Support Organization for the fiscal year 2019 and subsequent remain subject to examination.

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 reporting date and revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Risk and Uncertainties – Investments are exposed to various risks; such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the value in investment securities will occur in the near term, which could materially affect the Foundation's net assets.

Right-of-Use Assets - In February 2016, the Financial Accounting Standards Board (“FASB” or “the Board”) issued a new leasing standard in ASU 2016-02 (“Topic 842” or “the new standard”) for both lessees and lessors. Under its core principle, a lessee will recognize right-of-use (“ROU”) assets and related lease liabilities on the balance sheet for all arrangements with terms longer than 12 months. The pattern of expense recognition in the income statement will depend on a lease's classification. The provision of this update is effective for fiscal years beginning after December 15, 2021. Management elected to proceed with early implementation of the ASU.

See independent auditor's report.

LAKESHORE FOUNDATION AND AFFILIATES

Notes to the Consolidated Financial Statements (continued) For the Years Ended September 30, 2023 and 2022

Note 1 – Summary of Significant Accounting Policies (continued)

The total amount of the ROU net of accumulated amortization as of September 30, 2023 totaled \$17,540.

Fair Value Measurements - Fair value for financial reporting purposes is the price that would be received to sell an asset or paid to transfer a liability in an orderly market transaction between market participants at the measurement date (reporting date). Fair value is based on an exit price in the principal market or most advantageous market in which the reporting entity could transact. For each asset or liability required to be reported at fair value, management has identified the unit of account and valuation premise to be applied for purposes of measuring fair value. The unit of account is the level at which an asset or liability is aggregated or disaggregated. The valuation premise is a concept that determines whether an asset is measured on a stand-alone basis or in combination with other assets. The Foundation measures its assets and liabilities on a stand-alone basis, then aggregates assets and liabilities with similar characteristics for disclosure purposes.

The hierarchy for inputs used in measuring fair value maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the Foundation. Unobservable inputs are inputs that reflect the Foundation's assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The hierarchy is broken down into three levels based on the reliability of inputs as follows:

- Level 1 - Valuations based on quoted prices in active markets for identical assets or liabilities that the Foundation has the ability to access. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of judgment.
- Level 2 - Valuations based on observable inputs, including quoted prices (other than Level 1) in active markets for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, such as interest rates, yield curves, volatilities, and default rates, and inputs that are derived principally from or corroborated by observable market data.
- Level 3 - Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

If the determination of fair value measurement for a particular asset or liability is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety. Management's assessment of the significance of a particular input to the fair value measurement requires judgment and considers factors specific to the asset or liability measured.

The following is a description of the valuation methodologies used for assets measured at fair value at September 30, 2023 and 2022.

The fair value of investments is based on quoted market prices in an active market for identical assets and liabilities or other observable inputs as of the reporting date. The fair value of U.S. Government agencies, mortgages and leases, mutual funds, and some corporate obligations are categorized within Level 2 of the fair value hierarchy.

See independent auditor's report.

LAKESHORE FOUNDATION AND AFFILIATES

Notes to the Consolidated Financial Statements (continued) For the Years Ended September 30, 2023 and 2022

Note 1 – Summary of Significant Accounting Policies (continued)

The fair value of hedge funds and alternative investments, and some corporate obligations are categorized within Level 3 of the fair value hierarchy.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although management believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Some of the Foundation's financial instruments are not measured at fair value on a recurring basis. However, these instruments are carried at amounts that approximate fair value due to their liquid, or short-term, nature. Such financial assets and financial liabilities include pledges receivable, accounts receivable, interest receivable, accounts payable, and accrued interest. Long-term debt is recorded at cost, which approximates fair value as disclosed in Note 5.

Note 2 – Pledges Receivable

Pledges receivable at September 30 consist of the following:

	<u>2023</u>	<u>2022</u>
Unconditional promises to give	\$ 86,169	\$ 327,593
Less: allowance for uncollectible accounts	7,500	9,500
Less: adjustment for net present value	<u>230</u>	<u>1,284</u>
Net unconditional promises to give	<u>\$ 78,439</u>	<u>\$ 316,809</u>

The expected collection of pledges receivable at September 30, 2023, is as follows:

Less than one year	\$ 81,482
One to five years	<u>4,687</u>
Total unconditional promises to give	<u>\$ 86,169</u>

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See independent auditor's report.

LAKESHORE FOUNDATION AND AFFILIATES

Notes to the Consolidated Financial Statements (continued) For the Years Ended September 30, 2023 and 2022

Note 3 – Property, Plant and Equipment

Property, plant and equipment at September 30 are summarized as follows:

	<u>2023</u>	<u>2022</u>
Land	\$ 211,176	\$ 211,176
Land improvements	8,010,024	7,997,596
Major moveable equipment	2,616,886	2,372,978
Buildings and improvements	54,718,517	53,667,859
Fixed equipment	6,993,010	6,783,933
Construction in progress	<u>6,014</u>	<u>63,349</u>
Total property and equipment	72,555,627	71,096,891
Less: Accumulated depreciation	<u>37,679,696</u>	<u>36,047,055</u>
Total Property and Equipment, Net	<u>\$ 34,875,931</u>	<u>\$ 35,049,836</u>

Note 4 – Investments

Short-term and long-term investments at September 30 consisted of the following:

	<u>2023</u>		<u>2022</u>	
	<u>Cost or Amortized Cost</u>	<u>Carrying Value</u>	<u>Cost or Amortized Cost</u>	<u>Carrying Value</u>
Short term money market funds	\$ 440,353	\$ 440,353	\$ 834,004	\$ 834,004
Long-term investments:				
U.S. Government and agency securities	2,866,364	2,474,094	3,086,717	2,717,065
Corporate obligations	2,111,014	1,883,522	2,797,137	2,478,286
Fixed income mutual funds	4,668,595	4,310,693	3,107,568	2,802,477
Balanced mutual funds	-	-	1,139,367	1,018,114
Private investment funds:				
Private equity funds	40,296,024	42,629,784	45,681,011	40,008,916
Fixed income funds	3,585,142	3,304,368	3,585,142	3,270,502
Hedge funds	5,805,493	6,546,825	3,655,493	4,166,620
Alternative funds	<u>8,017,342</u>	<u>10,363,518</u>	<u>8,720,681</u>	<u>12,228,855</u>
Total Long-term investments	<u>67,349,974</u>	<u>71,512,804</u>	<u>71,773,116</u>	<u>68,690,835</u>
Total Investments	<u>\$ 67,790,327</u>	<u>\$ 71,953,157</u>	<u>\$ 72,607,120</u>	<u>\$ 69,524,839</u>

See independent auditor's report.

LAKESHORE FOUNDATION AND AFFILIATES

Notes to the Consolidated Financial Statements (continued) For the Years Ended September 30, 2023 and 2022

Note 4 – Investments (continued)

The Foundation holds alternative investments reported above consisting of eight hedge/pooled funds at September 30, 2023 and nine at September 30, 2022, which are limited partnerships, commingled funds, or similar arrangements.

The hedge/pooled fund investments are mainly fund-of-funds investments and accordingly due to the structure, flexibility and lower level of regulatory oversight may create additional exposure to investment risk. The fund managers hold these rated or unrated investments, which consist of long/short equity hedge funds (domestic and international), distressed/credit, or other investment opportunities.

Alternative investments and hedge/pooled funds were recorded at net asset value totaling \$16,910,343 with a net unrealized gain of \$3,087,508.

Two investments included in the alternative funds category have multi-year lock-up periods and cannot be redeemed before the manager dissolves the fund. The other investments included in this category have redemption notice periods that range from quarterly to semi-annually. The fair values of these investments have been estimated using the net asset value per share of the investment. Unfunded commitments as of September 30, 2023 and September 30, 2022 totaled \$604,986 and \$650,125, respectively.

Note 5 – Long-term Debt

The Medical Clinic Board of the City of Homewood (Board) issued its \$5,867,500 Lease Revenue Bond (Series 2013 Bond) in November 2013 for the benefit of the Foundation. The Series 2013 Bond was issued to refinance the Board's Series 2005 Lease Revenue Bonds also issued for the benefit of the Foundation and has been designated a qualified tax-exempt obligation under Section 265(b)(3) of the IRC. Principal and interest on the Series 2013 Bond are payable monthly beginning on December 1, 2013. All outstanding principal and interest amounts are required to be paid in full on or before November 1, 2024.

In December 2017, the Foundation issued a \$3,305,000 Lease Revenue Bond (Series 2017-A Bond), through the Board to refund the Board's Series 2009 Lease Revenue Bonds issued for the benefit of the Foundation. Principal of the Series 2017-A Bond is payable annually beginning on November 1, 2018, and interest is payable semi-annually on November 1 and May 1 beginning May 1, 2018. All outstanding principal and interest amounts are required to be paid in full on or before November 1, 2024.

In December 2017, the Board also issued its Lease Revenue Bond (Series 2017-B Bond) in an aggregate principal amount not to exceed \$10,000,000 for the benefit of the Foundation to finance the costs of constructing and equipping additional facilities located on the Foundation's campus. During the interest-only construction advance period for the Series 2017-B Bond which ended June 24, 2019, interest was paid monthly at a variable rate. The Series 2017-B Bond converted to a fixed interest rate on July 1, 2019. Principal on the Series 2017-B Bond is payable annually on each November 1 beginning November 1, 2019; interest is payable semi-annually on each November 1 and May 1 beginning November 1, 2019. The Series 2017-B Bond may be prepaid with proceeds from capital campaign funds with a 1% premium payable to the lender. After year seven, prepayment of outstanding principal may be made without penalty or premium.

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See independent auditor's report.

LAKESHORE FOUNDATION AND AFFILIATES

Notes to the Consolidated Financial Statements (continued) For the Years Ended September 30, 2023 and 2022

Note 5 – Long-term Debt (continued)

All outstanding principal and interest amounts are required to be paid in full on or before November 1, 2033. The Foundation must maintain total unrestricted investments of not less than 1.5 times the outstanding aggregate principal amount of funded debt.

In September 2018, the Foundation entered into a finance lease for equipment payable at \$1,314 per month for 60 months.

In November 2020, the Foundation entered into an operating lease for office equipment payable at \$1,387 per month for 48 months. The lease was capitalized as per the new leasing standard in ASU 2016-02 (“Topic 842” or the new standard) which the Foundation adopted in fiscal year 2021. The lease is presented as “Right-of-Use Assets” on the asset side of the Statement of Financial Position while the related liability is reflected in the current and long-term liabilities.

Long-term debt at September 30 is summarized as follows:

	<u>2023</u>	<u>2022</u>
Lease Revenue Bonds, Series 2013, with interest at 2.65%, payments due annually through 2024	\$ 708,084	\$ 1,297,156
Lease Revenue Bonds, Series 2017-A, with interest at 2.33%, payments due annually through 2024	1,019,500	1,512,500
Lease Revenue Bonds, Series 2017-B, with interest at 1.77% to 2.15%, payments beginning November 2019 due annually through 2033	7,991,563	8,666,319
Right-of-use-assets	<u>17,540</u>	<u>46,835</u>
Total Debt	9,736,687	11,522,810
Unamortized debt issuance costs	<u>(48,543)</u>	<u>(64,416)</u>
Total Debt, net	9,688,144	11,458,394
Less: Current portion	<u>1,807,252</u>	<u>1,786,122</u>
Total Long-Term Debt, net	<u>\$ 7,880,892</u>	<u>\$ 9,672,272</u>

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See independent auditor's report.

LAKESHORE FOUNDATION AND AFFILIATES

Notes to the Consolidated Financial Statements (continued) For the Years Ended September 30, 2023 and 2022

Note 5 – Long-term Debt (continued)

Future principal maturities of long term debt at September 30, 2023, and for the next 5 years and thereafter are as follows:

2024	\$ 1,807,252
2025	1,312,316
2026	699,893
2027	708,477
2028	717,169
Thereafter	<u>4,491,580</u>
Total Debt	<u>\$ 9,736,687</u>

The fair market value of bonds payable, which is estimated using current trade rates, was approximately \$7,880,892 and \$9,672,272 at September 30, 2023 and 2022, respectively.

Interest cost expensed for the years ended September 30, 2023 and 2022, was \$255,582 and \$300,406, respectively.

Note 6 – Rentals Under Operating Leases

The Foundation has entered into various rentals under operating leases as follows:

The Foundation leases approximately 138,000 square feet of buildings and equipment to a subsidiary of Encompass Health Corporation under a noncancelable operating lease that expires on September 30, 2034. The lessee has four options to renew the lease term for five additional years each.

The Foundation leases 17,690 square feet of office and lab space located in the Lakeshore Research Facility to the Board of Trustees of the University of Alabama on behalf of the University of Alabama at Birmingham (UAB) under a noncancelable operating lease that expires July 31, 2028. The lessee has two options to renew the lease term for five additional years each.

The Foundation leases 7,298 square feet of office and clinical space located in the Magnolia Building to Children's of Alabama under a noncancelable operating lease that expires on January 31, 2028. The lessee has the option to renew the lease term for an additional five years.

The Foundation leases tennis facilities to an individual under a non-cancelable lease that expires on September 30, 2026.

The Foundation leases approximately 2,958 square feet of office space located in the 3840 building to Matthew Remick Psychology, LLC under a ten-year noncancellable lease that expires on February 29, 2032.

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See independent auditor's report.

LAKESHORE FOUNDATION AND AFFILIATES

Notes to the Consolidated Financial Statements (continued) For the Years Ended September 30, 2023 and 2022

Note 6 – Rentals Under Operating Leases (continued)

The following is a schedule by year of minimum future rentals on non-cancelable operating leases as of September 30, 2023:

2024	\$ 4,742,703
2025	4,840,120
2026	4,922,248
2027	4,945,634
2028	4,826,511
Thereafter	<u>27,750,204</u>
Total	<u>\$ 52,027,420</u>

The following schedule provides a summary of the Foundation's investment in property under operating leases by major classes as of September 30:

	<u>2023</u>	<u>2022</u>
Land improvements	\$ 1,020,889	\$ 1,008,460
Major moveable equipment	272,866	272,866
Buildings and improvements	13,746,988	13,746,988
Fixed equipment	<u>6,210,506</u>	<u>6,195,285</u>
Total property and equipment	21,251,249	21,223,599
Less: Accumulated depreciation	<u>17,546,572</u>	<u>17,422,750</u>
Total Property and Equipment, Net	<u>\$ 3,704,677</u>	<u>\$ 3,800,849</u>

Note 7 – Net Assets With Donor Restrictions

Net assets with donor restrictions consisting of cash and pledges receivable are available for the following purposes at September 30:

	<u>2023</u>	<u>2022</u>
Purpose restrictions:		
Capital projects	\$ 77,869	\$ 318,043
Fund programs for the disabled	488,086	184,689
Scholarships for members	<u>125,378</u>	<u>124,893</u>
Total Net Assets With Donor Restrictions	<u>\$ 691,333</u>	<u>\$ 627,625</u>

The above restricted net assets include \$78,439 of net pledges receivable also restricted for time as of September 30, 2023 and \$316,809 at September 30, 2022.

See independent auditor's report.

LAKESHORE FOUNDATION AND AFFILIATES

Notes to the Consolidated Financial Statements (continued) For the Years Ended September 30, 2023 and 2022

Note 8 – Fair Value Measurements

The Foundation records certain assets and liabilities at fair value based upon a fair value hierarchy. See Note 1 for a discussion of the Foundation's policies regarding this hierarchy. The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Cash Equivalents and Short-Term Investments - For those short-term instruments, the carrying amount is a reasonable estimate of fair value.

Investments - Fair values are based on quoted market prices or dealer quotes.

The following fair value hierarchy table presents information about the Foundation's assets measured or disclosed at fair value on a recurring basis as of September 30, 2023:

<u>Assets</u>	<u>Fair Value</u>	Fair Value Measurement at Report Date Using		
		Quoted Prices in Active Markets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Investments:				
U.S. Government agencies	\$ 1,166,150	\$ -	\$ 1,166,150	\$ -
Mortgages and leases	1,307,944	-	1,307,944	-
Corporate obligations	1,883,522	-	1,883,522	-
Balanced mutual funds	-	-	-	-
Fixed income - mutual funds	4,310,693	4,310,693	-	-
Short-term investments	<u>440,353</u>	<u>440,353</u>	-	-
Total Assets at Fair Value	<u>9,108,662</u>	<u>4,751,046</u>	<u>4,357,616</u>	<u>-</u>
Investments at net asset value				
Private investment funds	<u>62,844,495</u>			
Total Investments at estimated Fair Value	<u>\$ 71,953,157</u>			

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See independent auditor's report.

LAKESHORE FOUNDATION AND AFFILIATES

**Notes to the Consolidated Financial Statements (continued)
For the Years Ended September 30, 2023 and 2022**

Note 8 – Fair Value Measurements (continued)

The following fair value hierarchy table presents information about the Foundation's assets measured or disclosed at fair value on a recurring basis as of September 30, 2022:

<u>Assets</u>	<u>Fair Value</u>	<u>Active Markets Level 1</u>	<u>Observable Inputs Level 2</u>	<u>Unobservable Inputs Level 3</u>
Investments:				
U.S. Government agencies	\$ 1,250,881	\$ -	\$ 1,250,881	\$ -
Mortgages and leases	1,466,185	-	1,466,185	-
Corporate obligations	2,478,285	-	2,478,285	-
Balanced mutual funds	1,018,114	1,018,114	-	-
Fixed income - mutual funds	2,802,477	2,802,477	-	-
Short-term investments	<u>834,004</u>	<u>834,004</u>	<u>-</u>	<u>-</u>
Total Assets at Fair Value	<u>9,849,946</u>	<u>4,654,595</u>	<u>5,195,351</u>	<u>-</u>
Investments at net asset value				
Private investment funds	<u>59,674,893</u>			
Total Investments at estimated Fair Value	<u>\$ 69,524,839</u>			

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See independent auditor's report.

LAKESHORE FOUNDATION AND AFFILIATES

Notes to the Consolidated Financial Statements (continued) For the Years Ended September 30, 2023 and 2022

Note 9 – Related Party Transactions

The Foundation owns the hospital building and leases it to a subsidiary of Encompass Health. The President, South Central Region of Encompass Health is a member of the Foundation's Board of Directors. The total amount of lease payments received from Encompass Health during fiscal year 2023 was \$3,866,476.

The Foundation entered into a contract with Hoar Construction for the renovation of the Foundation's main lobby. The President of Hoar Holdings, LLC is a member of the Foundation's Board of Directors. The total amount paid to Hoar Construction during fiscal year 2023 was \$754,681.

The Foundation leases the Magnolia Building to Children's of Alabama. The Chief Executive Officer of Children's of Alabama is a member of the Foundation's Board of Directors. The total amount of lease payments received from Children's of Alabama in 2023 was \$180,309.

The Foundation paid legal fees to law firms where partners are also members of the Foundation's Board of Directors. The total amount of the legal fees paid to the law firms in 2023 totaled \$78,789 (\$4,973 for bond counsel and \$73,816 for general services).

The Foundation leases the Lakeshore Research Facility building to the Board of Trustees of the University of Alabama on behalf of the University of Alabama at Birmingham (UAB). The building is leased through the School of Health Professions and the Dean of the School is a member of the Foundation's Board of Directors. The total amount of lease payments received from UAB during fiscal year 2023 was \$438,240. The Foundation also receives Federal grant awards from the UAB School of Health Professions as a subrecipient. The total amount of payments received during fiscal year 2023 from these grants was \$951,584.

The Foundation paid Regions Financial Corporation (Regions) bond trustee fees of \$7,700, bond interest payments of \$221,009, and investment management services of \$14,821. The Chief Administrative and Human Resources Officer of Regions, is a member of the Foundation's Board of Directors.

The Foundation also has transactions with media, website design and health insurance companies which occur in the normal course of business. Executives from these companies serve as members of the Foundation's Board of Directors.

Note 10 – Gifts-in-Kind

The Foundation received gifts-in-kind for the year ended September 30, 2023:

Equipment	\$	27,213
Fundraising services and supplies		7,985
Program supplies		<u>5,909</u>
Total Gifts-in-kind	\$	<u>41,107</u>

The Foundation's policy related to gifts-in-kind is to utilize the assets given to carry out the mission of the Foundation.

See independent auditor's report.

LAKESHORE FOUNDATION AND AFFILIATES

Notes to the Consolidated Financial Statements (continued) For the Years Ended September 30, 2023 and 2022

Note 10 – Gifts-in-Kind (continued)

The Foundation received donated equipment and supplies with an estimated fair market value of \$27,213 and \$5,909, respectively, for operations of their programs.

The Foundation received donated services and supplies with an estimated fair market value of \$7,985 for a fundraising event, proceeds of which were used to support the ongoing programs.

Note 11 – Liquidity and Availability of Funds

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

	<u>2023</u>	<u>2022</u>
Cash and cash equivalents	\$ 1,878,732	\$ 1,261,575
Pledges receivable for operations	78,439	9,550
Accounts receivable	333,613	469,976
Investments available for operations	<u>5,467,193</u>	<u>5,534,507</u>
Total financial assets available for general expenditures within one year	<u>\$ 7,757,977</u>	<u>\$ 7,275,608</u>

Investments available for operations of \$5,467,193 consists of funds held in investments that the Finance Committee and Board of Directors of Lakeshore Foundation have approved for general spending for the September 30, 2024 fiscal year.

Note 12 – Subsequent Events

The Foundation has evaluated subsequent events through December 27, 2023, the date the consolidated financial statements were available to be issued.

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

Board of Directors
Lakeshore Foundation and Affiliates

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 Lakeshore Foundation and Affiliates (a nonprofit organization), which comprise the consolidated statement of financial position as of Lakeshore Foundation and Affiliates, as of September 30, 2023, and the related consolidated statements of activities, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated December 27, 2023.

Report on Internal Control Over Financial Reporting

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

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

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

Report on Compliance and Other Matters

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

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization'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 organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Borland Benefield P.C.

Borland Benefield, P.C.
Birmingham, Alabama
December 27, 2023

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

To the Board of Directors
Lakeshore Foundation and Affiliates

Report on Compliance for Each Major Federal Program***Opinion on Each Major Federal Program***

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

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

Basis for Opinion on Each Major Federal Program

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

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

Responsibilities of Management for Compliance

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

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Lakeshore Foundation and Affiliates' compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about Lakeshore Foundation and Affiliates' compliance with the requirements of each major federal program as a whole.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Lakeshore Foundation and Affiliate's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Lakeshore Foundation and Affiliate's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the Lakeshore Foundation and Affiliate's internal control over compliance. Accordingly, no such opinion is expressed.

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

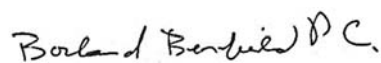
Report on Internal Control over Compliance

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

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

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

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



Borland Benefield, P.C.
Birmingham, Alabama
December 27, 2023

LAKESHORE FOUNDATION AND AFFILIATE

Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2023

<u>Federal Grantor/Pass-Through Grantor/Program or Title</u>	<u>Assistance Listing Number (ALN)</u>	<u>Pass-Through/ Local Grantor Number</u>	<u>Total Expended</u>
U.S. Department of Health & Human Services			
University of Alabama at Birmingham			
Disabilities Prevention	93.184	164965	\$ 816,001
Disability and Rehabilitation Research Program	93.433	164965	51,729
Artificial Intelligence Assisted Inclusive Diabetes Telecoaching Self- Management Program	93.433	164965	49,563
Artificial Intelligence Assisted Chronic Disease Self-Management Telehealth Program	93.433	164965	34,291
Child Health & Human Development Extramural Research	93.865	164965	8,467
National Association of Chronic Disease Directors			
Reaching People with Disabilities Through Healthy Communities	93.261	5NU58DP006363-05	83,853
American Association on Health and Disability			
Trans-NIH Research Support - All of Us	93.310	OT2OD031916	15,000
Southern All of Us Network	93.310	3OT2OD026548-01S6	322
Administration for Community Living			
Administration for Community Living - Yumlish	93.U02	90BISB0027-01-00	<u>3,062</u>
Total U.S. Department of Health & Human Services			<u>1,062,288</u>
U.S. Department of Veteran Affairs			
Veterans Adaptive Sports Programs for Disabled Veterans			
VA Assistance to U.S. Paralympic Integrated Adaptive Sports Program - Operation Endurance	64.034	SPORTS-21-056	<u>25,599</u>
Total U.S. Department of Veteran Affairs			<u>25,599</u>
Total Expenditures of Federal Awards			<u>\$ 1,087,887</u>

LAKESHORE FOUNDATION AND AFFILIATE

Notes to the Schedule of Expenditures of Federal Awards For the Year Ended September 30, 2023

Note 1 – Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal award activity of the Foundation under programs of the federal government for the year ended September 30, 2023. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the Foundation, it is not intended to and does not present the financial position, changes in net assets, or the cash flows of the Foundation.

Note 2 – Summary of Significant Accounting Policies

Expenditures reported on the schedule 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.

Note 3 – Indirect Cost Rate

The Foundation has elected to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.

LAKESHORE FOUNDATION AND AFFILIATE

**Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2023**

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: unmodified

Internal control over financial reporting:
Material weakness(es) identified? yes X no

Significant deficiencies identified that are not considered to be material weaknesses? yes X no

Noncompliance material to financial statements noted? yes X no

Federal Awards

Internal control over major programs:
Material weakness(es) identified? yes X no

Significant deficiencies identified that are not considered to be material weaknesses? yes X no

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) of the Uniform Guidance? yes X no

Identification of major programs:
U.S. Department of Health & Human Services
ALN # 93.184 - Disabilities Prevention

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

Auditee qualified as low-risk auditee? X yes no

Section II - Financial Statement Findings

None Reported

Section III - Federal Award Findings and Questioned Costs

None Reported