Unity Health Care, Inc.

Financial Statements OMB Uniform Guidance

Years Ended December 31, 2019 and 2018

DIXON HUGHES GOODMAN LLP

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DIXON HUGHES GOODMAN LLP

Independent Auditors' Report

Board of Directors
Unity Health Care, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Unity Health Care, Inc. (the Center) which comprise the statements of financial position as of December 31, 2019 and 2018, and the related statements of activities, changes in net assets and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Unity Health Care, Inc. as of December 31, 2019 and 2018, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

DIXON HUGHES GOODMAN LLP

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) 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 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the 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 31. 2020, on our consideration of the Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Center's internal control over financial reporting and compliance.

Dixon Hughes Goodman LLP

Richmond, Virginia
December 31, 2020

Unity Health Care, Inc.
Statements of Financial Position
December 31, 2019 and 2018

	2019	2018
ASSETS		
Current assets:		
Cash and cash equivalents	$ 5,673,778	$ 6,691,579
Patient services receivable, net	7,994,062	8,845,075
Contracts receivable	8,445,300	3,804,169
Prepaid expenses and other current assets	4,087,032	3,944,258
Total current assets	26,200,172	23,285,081
Property and equipment:		
Land	2,723,572	2,723,572
Buildings	45,804,034	45,795,334
Leasehold improvements	174,553	174,553
Furniture and equipment	13,020,270	12,131,957
Vehicles	574,539	574,539
Construction in progress	-	552,044
	62,296,968	61,951,999
Less - accumulated depreciation	28,065,362	26,006,239
Net property and equipment	34,231,606	35,945,760
Loan receivable	-	18,267,350
Due from affiliate	17,057,423	-
Other assets	2,334,104	1,921,108
Total assets	$ 79,823,305	$ 79,419,299
LAIBILITIES AND NET ASSETS		
Current liabilities:		
Medical claims payable	$ 435,000	$ 435,000
Accounts payable and accrued expenses	6,195,177	5,168,158
Accrued compensation and related benefits	5,916,143	5,438,648
Deferred revenue	686,292	-
Current maturities of long-term debt	471,478	460,619
Total current liabilities	13,704,090	11,502,425
Long-term debt - less current maturities	8,807,131	8,836,570
Deferred rent liability	5,083,294	4,939,386
Other long-term liabilities	852,127	769,012
Total liabilities	28,446,642	26,047,393
Net assets:		
Without donor restrictions	51,376,663	53,371,906
Total liabilities and net assets	$ 79,823,305	$ 79,419,299

See accompanying notes.

Unity Health Care, Inc.
Statements of Activities
Years Ended December 31, 2019 and 2018

	2019	2018
Revenues, gains, and other support:		
Patient service revenue (net of contractual allowances and discounts)	**$ 56,381,380**	$ 52,333,501
Provision for bad debts	**(2,603,094)**	(1,521,066)
Net patient service revenue	**53,778,286**	50,812,435
DHHS grants	**13,173,423**	13,004,102
Contract services	**5,642,312**	5,280,711
Department of Corrections contract	**25,237,157**	20,881,499
Contributions	**650,778**	1,039,746
340b pharmacy program	**25,283,832**	22,228,161
Other revenue	**8,313,971**	2,227,582
Total revenues, gains, and other support	**132,079,759**	115,474,236
Expenses:		
Salaries and wages	**66,088,900**	61,867,432
Fringe benefits	**11,746,491**	10,240,804
Consultants and contractual fees	**6,139,503**	5,795,008
Occupancy and utilities	**6,876,514**	6,287,660
Consumable supplies	**3,625,372**	2,934,139
Telephone	**1,421,065**	1,269,632
Depreciation	**2,112,251**	2,057,054
Laboratory and radiology	**3,612,288**	2,746,819
Information technology	**1,350,090**	1,058,545
Equipment rental, repairs and maintenance	**639,464**	871,162
Professional fees	**1,537,386**	1,268,790
340b pharmacy program	**20,380,383**	17,314,034
Miscellaneous	**633,633**	761,146
Insurance	**326,917**	453,814
Printing, postage and publications	**463,898**	191,005
Staff training and education	**504,546**	417,768
Travel, conferences and meetings	**166,702**	243,059
Dues and subscriptions	**291,102**	278,265
Donated services and materials	**-**	51,932
Interest	**599,565**	567,798
Health promotion	**61,282**	31,936
Total expenses	**128,577,352**	116,707,802
Excess (deficiency) of revenues, gains, and other support over expenses	**3,502,407**	(1,233,566)
Net equity transferred to subsidiary	**(5,497,650)**	-
Change in net assets without donor restrictions	**$ (1,995,243)**	$ (1,233,566)
Net assets, beginning of year	**53,371,906**	54,605,472
Net assets, end of year	**$ 51,376,663**	$ 53,371,906

Unity Health Care, Inc.
Statements of Cash Flows
Years Ended December 31, 2019 and 2018

	2019	2018
Cash flows from operating activities:		
Change in net assets	$ (1,995,243)	$ (1,233,566)
Adjustments to reconcile to net cash provided by (used in) operating activities:		
Depreciation	2,112,251	2,057,054
Amortization of debt issuance costs	12,838	66,129
Provision for bad debts	2,603,094	1,521,066
Rent due to affiliate	914,757	-
Earnings from investment in subsidiary	(281,204)	(301,015)
Change in:		
Patient services receivable	(1,752,081)	(3,269,968)
Contracts receivable	(4,641,131)	(458,395)
Prepaid expenses and other current assets	(142,774)	(1,414,226)
Other assets	(131,793)	39,660
Medical claims payable	-	49,446
Accounts payable and accrued expenses	1,027,019	898,324
Accrued compensation and related benefits	477,495	210,248
Deferred rent liability	439,078	1,279,916
Other long-term liabilities	83,115	91,672
Deferred revenue	686,292	(216,608)
Net cash used in operating activities	(588,287)	(680,263)
Cash flows from investing activities:		
Purchase of property and equipment	(398,096)	(1,014,796)
Net cash used in investing activities	(398,096)	(1,014,796)
Cash flows from financing activities:		
Principal payments of long-term debt	(300,203)	(450,360)
Payments of debt issuance costs	-	(21,582)
Proceeds from long-term debt	268,785	-
Net cash used in financing activities	(31,418)	(471,942)
Change in cash and cash equivalents	(1,017,801)	(2,167,001)
Cash and cash equivalents - beginning of year	6,691,579	8,858,580
Cash and cash equivalents - end of year	$ 5,673,778	$ 6,691,579
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 586,727	$ 515,775

Notes to Financial Statements

1. Organization and Nature of Business

Unity Health Care, Inc. (the Center) was incorporated as a not-for-profit healthcare agency dedicated to providing primary healthcare, disease prevention, health promotion, mental health, outreach, HIV, and case management services to the homeless and medically indigent of Washington, D.C. The Center's mission is to provide accessible, quality healthcare in a cost-effective manner through a coordinated service delivery. The Center's role is to help empower clients to improve their lives regardless of financial circumstances, ethnic background, race, creed or color.

The U.S. Department of Health and Human Services (DHHS) provides substantial support to the Center. The Center is obligated under the terms of the DHHS grants to comply with specified conditions and program requirements set forth by the grantor.

The Center was awarded a fixed-price contract to provide or arrange for certain inpatient hospital and specialty services for persons in the custody of the District of Columbia Department of Corrections (DOC). The DOC contract was effective October 16, 2006 and has been renewed through April 2021. Afterwards, the DOC has options to extend one additional year through April 2024.

The accompanying financial statements are those of Unity Health Care, Inc. only and are not those of the primary reporting entity. The consolidated financial statements of Unity Health Care, Inc. and Subsidiaries have been issued as the financial statements of the primary reporting entity.

2. Summary of Significant Accounting Policies

Classes of net assets

The Center’s net assets are grouped into the following classes, as applicable:

<u>Net assets – without donor restrictions</u>

Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Center. These net assets may be used at the discretion of the Center’s management and the board of directors for use in the Center’s operations.

<u>Net assets – with donor restrictions</u>

Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Center or by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity. There were no net assets with donor restrictions at December 31, 2019 and 2018.

Results of operations

The statement of activities includes the deficit of revenues over expenses that represent the results of operations and all other activities.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Cash and cash equivalents

The Center maintains its cash in bank deposit accounts which, at times, may exceed the federally insured limit. The Center has not experienced any losses in such accounts. The Center considers all highly liquid investments purchased with an original maturity of three months or less to be cash and cash equivalents.

Contracts receivable

Contracts receivable reflect amounts earned but not yet collected which the Center expects to realize.

Patient services receivable

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

Accounts receivable due directly from patients are carried at the original charge for the service provided less discounts provided under the Center's charity care policy, less amounts covered by third-party payers and less an estimated allowance for doubtful accounts. Management determines the allowance for doubtful accounts by identifying troubled accounts and by historical experience applied to an aging of accounts. The Center considers accounts past due when they are outstanding beyond sixty days with no payment. The Center generally does not charge interest on past due accounts. Patient accounts receivable are written off as bad debt expense when deemed uncollectible. Recoveries of patient accounts receivable previously written off are recorded as a reduction of bad debt expense when received. The allowance for doubtful accounts was $9,187,210 and $9,714,329 at December 31, 2019 and 2018, respectively.

Property and equipment

Property and equipment is recorded at cost or, if donated, at the fair value at the date of donation. Depreciation and amortization are recorded on a straight-line basis over the estimated useful lives of the assets, which range from three to forty years. Leasehold improvements are amortized on a straight-line basis over the estimated useful life of the improvement or the term of the lease, whichever is less. The Center capitalizes all purchases of property and equipment equal to or in excess of $5,000.

According to federal regulations, any equipment items obtained through federal funds are subject to a lien by the federal government. As long as the Center maintains its tax-exempt status, or as long as the equipment is used for its intended purpose, the Center is not required to reimburse the federal government. If the stated requirements are not met, the Center would be obligated to the federal government in an amount equal to the fair value of the equipment.

Loan receivable

On December 31, 2018, the loan receivable included a loan to Unity-Parkside Property, Inc. (Parkside), a District of Columbia non-profit corporation established during August 2012 to participate in the Internal Revenue Service's New Market Tax Credit (NMTC) program. The Center entered into a Credit Agreement with Parkside authorizing a $18,267,350 loan to Parkside to pay for certain professional fees and closing costs, establish an interest reserve account, and acquire, construct, furnish, equip and lease the health care facility to be constructed on the property. The loan was collateralized by revenues from leases of Parkside and the property's deed of trust, including land. Payments were scheduled to be made semi-annually over a 30-year term. The annual interest rate of the loan was 1.335%. Interest-only payments on the loans were due through 2019. Interest incurred during 2019 and 2018 was $210,627 and $317,262, respectively. The Credit Agreement contained certain nonfinancial covenants. The NMTC had a seven-year compliance period which expired on August 16, 2019. Upon the expiration of the compliance period, the NMTC was wound down and the loan receivable balance was reclassified as a due from affiliate on the statements of financial position as of December 31, 2019.

Medical claims payable

Medical claims payable include estimates of payments to be made on claims reported and estimates of healthcare services rendered, as well as claim adjustment expenses, as of December 31, 2019 and 2018, and is based on past experience. Medical claims payable estimates are reviewed and adjusted periodically and, as adjustments are made, updates to such estimates are included in current operations.

Deferred rent liability

Deferred rent is recorded and amortized to the extent the total minimum rental payments allocated to the current period on a straight-line basis exceed, or are less than, the cash payments required.

Patient services revenue

Patient services revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered, including retroactive adjustments under reimbursement agreements with third-party payers, which are subject to audit by administrating agencies. These adjustments are accrued on an estimated basis and are adjusted in future periods as final settlements are determined. The Center has agreements with third-party payers that provide for payments to the Center at amounts different from its established rates. Payment arrangements include predetermined fee schedules and discounted charges.

The Center provides care to certain patients under Medicaid and Medicare payment arrangements. Laws and regulations governing the Medicaid and Medicare programs are complex and subject to interpretation. Compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action. Self-pay revenue is recorded based on published charges less charitable allowances. Patient service revenue, net of contractual allowances and discounts, is recognized from these major payer sources for the year ended December 31, 2019 and 2018:

	2019	2018
Patient service revenue (net of contractual allowances and discounts)		
Third-party payers	**$ 55,616,942**	$ 50,508,590
Self-pay	**764,438**	1,824,911
	$ 56,381,380	$ 52,333,501

Grant revenue

Grants are recognized as revenue when earned. Expense reimbursement-based grants are recognized as revenue when the qualifying expenses have been incurred and all other grant requirements have been met. Grant funds received prior to the incurrence of the qualifying expenses are deferred. At December 31, 2019, the Center received grants from governmental entities that had not been earned and are recorded in deferred revenue in the accompanying financial statements. These grants required the Center to provide certain healthcare services during specified periods. If such services are not provided, the governmental entities are not obligated to expend the funds allotted under the grants. Grants awarded for the acquisition of long-lived assets are reported as unrestricted support during the fiscal year in which the assets are acquired.

Contract revenue

Contract revenue is recognized as revenue when the related services are provided.

340B program

The 340B Drug Discount Program was created to help ensure that uninsured and low-income individuals have access to prescription drugs by mandating that drug manufacturers provide outpatient drugs to eligible health care organizations at significantly reduced prices. This program enables covered entities, such as the Center, to reach more eligible patients and provide more comprehensive service. The Center has three components to its 340B program. The first component is the onsite pharmacies which is managed by a third-party vendor, Maxor. The Center currently has three sites that have pharmacies located on premises. The second component is retail pharmacy. The Center partners with SunRx, Walgreens and CVS/Wellpartners in the retail space. The third component is the pharmacy that is located within the DOC. While the Center passes on the 340B savings through its partnership with the District, it does receive a per prescription dispense fee to administer this program.

Other revenue

Other revenue includes rental income, rebates, capitation fees, miscellaneous income earned from refunds and incentives earned under the HITECH Meaningful Use Electronic Health Records (EHR) Medicare program.

The Center achieved compliance with meaningful use requirements under the Medicare and Medicaid programs during 2019 and 2018, respectively. During the years 2019 and 2018, the Center recognized incentive payments totaling $102,000 and $127,500, respectively, in other operating revenue in the accompanying financial statements.

Contributions

Contributions, some of which are multi-year, are recorded at fair value when received or pledged. Amounts are recorded as net assets with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires (that is, when a stipulated time restriction ends or a purpose restriction is accomplished), net assets with donor restrictions are reclassified as net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

Tax status

The Center was incorporated as a not-for-profit corporation under the laws of the District of Columbia and is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. Therefore, there is no provision for income taxes in the accompanying financial statements. In addition, the Center is not classified as a private foundation.

The Center files a Form 990 (Return of Organization Exempt from Income Taxes) with the Internal Revenue Service. Tax positions taken on the Form 990 are tax positions that may be subject to uncertainty regarding the merits of the position taken or the amount of the position that would ultimately be sustained. Examples of tax positions common to tax-exempt organizations are the tax-exempt status of the entity and various positions relative to potential sources of unrelated business taxable income.

A tax-exempt organization that has more than $1,000 of gross income from any unrelated business must file the Internal Revenue Service Form 990-T. Management has concluded that the Center has no obligation for any unrelated business tax.

The benefit of a tax position is recognized in the financial statements in the period during which, based on available evidence, management believes it is more likely than not the tax position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions are not offset or aggregated with other positions. Tax positions that meet the “more likely than not” recognition threshold are measured as the largest amount of tax benefit that is more than 50% likely to be realized on settlement with the applicable taxing authority. The portion of the benefits associated with the tax positions taken that exceeds the amount measured as described above is reflected as a liability for unrecognized tax benefits in the statement of financial position along with any associated interest and penalties that would be payable to the taxing authorities upon examination. At December 31, 2019 and 2018, there were no unrecognized tax benefits identified or recorded as liabilities.

Recent accounting pronouncements

On June 3, 2020, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2020-05, *Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842): Effective Dates for Certain Entities*. The ASU permits private companies and not-for-profit organizations that have not yet issued (or made available) financial statements with ASC 606, *Revenue from Contracts with Customers* implemented to defer one year to annual reporting periods beginning after December 15, 2019. Therefore, the Corporation has chosen to delay implementation of ASC 606 and will adopt this standard on its December 31, 2020 year-end financial statements.

During fiscal year 2019, the Corporation adopted ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The ASU clarifies current guidance about whether a transfer of assets (or the reduction, settlement, or cancellation of liabilities) is a contribution or an exchange transaction. The ASU clarifies how an entity determines whether a resource provider is participating in an exchange transaction by evaluating whether the resource provider is receiving commensurate value in return for the resources transferred. The Corporation implemented the provisions of ASU 2018-08 effective January 1, 2019 using the modified prospective basis. There was no impact on beginning net assets in connection with the implementation of ASU 2018-08 and no change in contribution recognition.

3. Net Patient Services Revenue

The Center has agreements with third-party payers which provide for reimbursement to the Center at amounts different from its established rates. Contractual adjustments under third-party reimbursement programs represent the difference between the Center’s billings at list price and the amounts reimbursed by Medicare, Medicaid and certain other third-party payers, and any differences between estimated third-party reimbursement settlements for prior years and subsequent final settlements. A summary of the basis of reimbursement with major third-party payers follows:

Medicare

The Center is paid for patient care services rendered to Medicare program beneficiaries primarily under contractual agreements with the Center for Medicare and Medicaid Services and with third-party Medicare Advantage plans. The majority of the Center’s Medicare reimbursement is paid on a per encounter basis. In 2015, Medicare adopted a prospective payment system. The payment is a flat per visit amount set by Medicare to include a geographic adjustment factor applicable to the location of the health center. For the years ended December 31, 2019 and 2018, the Center recognized approximately 12% and 13%, respectively, of net patient services revenue from services provided to Medicare beneficiaries.

Medicaid

The Center is paid for patient services rendered to Medicaid program beneficiaries primarily under contractual agreements with third-party Medicaid managed care organizations, with payments based on a fee scale applicable to the service provided. Additional wraparound reimbursement, paid by the District of Columbia Department of Healthcare Finance, is paid on a per encounter basis to result in a net per visit payment equal to a prospectively set rate adjusted annually for inflation. For the years ended December 31, 2019 and 2018, the Center recognized approximately 68% and 74%, respectively, of net patient services revenue from services provided to Medicaid beneficiaries.

Other third party

The Center has also entered into reimbursement agreements with certain non-Medicare and non-Medicaid commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment under these agreements includes discounts from established charges and prospectively determined per visit rates. For both years ended December 31, 2019 and 2018, the Center recognized approximately 20% and 13%, respectively of net patient services revenue from services provided to these other third-party payers.

Laws and regulations governing Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The Center believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation, as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs.

4. Charity Care and Social Accountability

The Center is a not-for-profit healthcare provider established to meet the healthcare needs of a largely medically underserved population. The Center provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than established rates. Because the Center does not pursue collection of amounts determined to qualify as charity care, such amounts are not reported as revenue. The Center maintains records to identify and monitor the level of charity care it provides. The amount of charity care provided based on the charges of the Center during the years ended December 31, 2019 and 2018 was approximately $3,253,000 and $3,148,000, respectively. The costs associated with this care were approximately $3,351,000 and $3,242,000 in 2019 and 2018, respectively. The cost of uncompensated care includes both direct and indirect costs, and is calculated based on the ratio of cost to charges.

5. Concentrations of Credit Risk

The mix of net patient accounts receivable from patients and third-party payers is as follows:

	2019	2018
Medicaid and Medicaid managed care	**69%**	74%
Medicare	**22%**	13%
Other third-party payers	**7%**	10%
Self-pay	**2%**	3%
	100%	100%

6. Contracts Receivable

Contracts receivable consist of the following at December 31:

	2019	2018
D.C. Department of Corrections	**$ 5,333,014**	$ 2,463,201
Women, Infants and Children	**482,984**	202,561
Ryan White Title I	**-**	20,062
Other	**2,629,302**	1,118,345
	$ 8,445,300	$ 3,804,169

7. Long-Term Debt

Long-term debt consists of the following:

	2019	2018
The Center entered into a loan payable with a face amount of $4,800,000 on June 8, 2017 with Capital Impact Partners. The loan requires monthly payments of principal and interest and matures on July 1, 2042. The annual interest rate is fixed at 5.70%. The loan is collateralized by the deed of trust on the Upper Cardozo property located at 3020 14th Street, NW, Washington, DC.	**4,575,051**	4,671,895
The Center entered into a loan payable with a face amount of $4,400,000 on June 8, 2018 with the Reinvestment Fund. The loan requires monthly payments of principal and interest and matures on July 1, 2042. The annual interest rate is fixed at 5.70%. The loan is collateralized by the deed of trust on the Upper Cardozo property located at 3020 14th Street, NW, Washington, DC.	**4,193,831**	4,282,570
The Center entered into a pharmacy management services agreement with Maxor National Pharmacy Services, LLC (Maxor), to help finance and manage two pharmacies that the Center opened with respect to its participation in the federal 340B program. The term of the agreement is four-years with an additional year option. Maxor agreed to advance cash not to exceed $550,000 per location for individual operation costs associated with each pharmacy. The Center is to make non-interest bearing monthly payments of $11,458 until the advance is fully reimbursed.	**795,832**	641,667
Net unamortized debt issuance costs	**(286,105)**	(298,943)
	9,278,609	9,297,189
Less – current maturities	**(471,478)**	(460,619)
Long-term debt less current maturities	**$ 8,807,131**	$ 8,836,570

The aggregate amounts of principal payments on long-term debt during the years following December 31, 2019 are as follows:

2020	$	471,478
2021		482,972
2022		465,970
2023		233,018
2024		246,650
Thereafter		7,664,625
	$	9,564,713

The loan agreements require the Center to comply with certain financial covenant requirements including minimum debt service coverage, maximum leverage ratio, and minimum days cash on hand defined within the agreements. As of December 31, 2019, the Center was not in compliance with the minimum days cash on hand and has received waivers for the violation.

8. Line of Credit

In June 2017, the Center opened a line of credit with a face amount of $2,000,000, which expired in August 2018. During August 2018, the Center opened a new line of credit with a face amount of $2,000,000, which expires on November 30, 2020. The line of credit is collateralized by present and future accounts receivable. This line of credit requires an annual rate equal to 1.75% in excess of the prime rate. No amounts were drawn from the line of credit as of December 31, 2019 and 2018.

9. Functional Expenses

Expenses incurred in connection with operations for the year ending December 31, 2019 are as follows:

	Program Services	Support Services	Total
Employee compensation	$ 69,721,123	$ 8,114,268	$ 77,835,391
Professional fees	8,931,779	4,034,405	12,966,184
Occupancy cost	5,898,499	978,015	6,876,514
Supplies, vaccines and pharmacy	17,861,894	6,143,861	24,005,755
Other miscellaneous	2,085,146	2,096,546	4,181,692
Interest expense	-	599,565	599,565
Depreciation	1,816,536	295,715	2,112,251
	$106,314,977	$ 22,262,375	$128,577,352

Expenses related to providing these services during the year ended December 31, 2018 are as follows:

	Program Services	Support Services	Total
Employee compensation	$ 64,591,707	$ 7,516,529	$ 72,108,236
Professional fees	9,190,968	4,151,479	13,342,447
Occupancy cost	5,393,396	894,264	6,287,660
Supplies, vaccines and pharmacy	13,226,060	4,549,528	17,775,358
Other miscellaneous	3,040,466	1,528,783	4,569,249
Interest expense	-	567,798	567,798
Depreciation	1,769,066	287,988	2,057,054
	$ 97,211,663	$ 19,496,139	$116,707,802

10. Contract Services

For the year ended December 31, 2019 and 2018, contract services revenue consists of the following:

	2019	2018
Diffusion of Care	**$ 539,404**	$ 607,585
Women, Infants and Children	**965,502**	1,039,035
Ryan White Title I	**338,383**	391,865
Training Program	**358,244**	449,162
Woodson High School	**326,368**	343,611
Cardozo High School	**328,778**	339,242
CDC Grant	**149,447**	59,355
Supportive Housing Program	**-**	220,000
Other	**2,636,186**	1,830,856
	$ 5,642,312	$ 5,280,711

11. Retirement Plans

The Center has a defined contribution deferred annuity plan (the Plan) covering all regular full-time employees. The Center contributes to the Plan up to 1% of an employee's base salary. Contributions to the Plan amounted to $1,010,000 and $500,712 for the years ended December 31, 2019 and 2018, respectively.

12. Deferred Compensation

The Center established an Executive 457(b) Retirement Plan (the 457 Plan). The 457 Plan is a deferred compensation plan under Section 457(b) of the Internal Revenue Code. The 457 Plan provides deferred compensation benefits for certain management and highly compensated employees. Deferred compensation amounted to $852,127 and $769,012 for the years ended December 31, 2019 and 2018, respectively. Assets and liabilities related to the 457 Plan are included in other assets and in other long-term liabilities, respectively, on the accompanying statements of financial position.

13. Investment in Subsidiaries

Unity Business Solutions, LLC (UBS) is a District of Columbia limited liability company established during July 2015. UBS was established to provide business support services, health information technology, nursing staffing, administrative staffing, and financial management services, to entities including but not limited to health care organizations serving the District of Columbia communities. The Center is the sole member of UBS and is required to make certain capital contributions as described in the operating agreement.

14. Operating Leases

The Center leases facility space under certain noncancelable operating leases. The lease agreements provide for scheduled rent increases each year. Aggregate space costs for the year ended December 31, 2019 and 2018 amounted to $6,876,514 and $6,287,660 respectively, including utilities and other common charges. In 2018, the Center entered into a lease agreement to relocate its administrative offices with a lease term that began in July 2018 and extends until December 2035. This lease commitment contains stated annual escalating rent payments and an allowance for tenant improvements.

Minimum future lease payments under these noncancelable operating leases are as follows:

	Others	Parkside	Total
2020	$ 3,608,065	$ 1,350,000	**$ 4,958,065**
2021	3,324,092	1,350,000	**4,674,092**
2022	3,365,385	1,350,000	**4,715,385**
2023	3,459,189	1,350,000	**4,809,189**
2024	3,555,557	1,350,000	**4,905,557**
Thereafter	49,558,784	11,925,000	**61,483,784**
	$ 66,871,071	$ 18,675,000	**$ 85,546,071**

15. Information Concerning Parent and Subsidiaries

The Center performs certain management and administrative services on behalf of its subsidiaries without compensation.

16. Commitments and Contingencies

Contracted services

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

The contract for services with the DOC, which represented approximately 19% of net revenue for 2019 for the Center, extends through April 2021. Afterwards, the DOC has options to extend one additional year through April 2024. Non-renewal of this contract could have a significant impact on future operations of the Center.

Malpractice risk

The Center is deemed an employee of the federal government for purposes of malpractice protection and is thus covered under the Federal Tort Claims Act (FTCA). The FTCA provides malpractice coverage to eligible Public Health Service supported programs and applies to the Center and its employees while providing services within the scope of employment included under grant-related activities.

The U.S. Attorney General, through the U.S. Department of Justice, has the responsibility for the defense of the individual and/or grantee for malpractice cases approved for FTCA coverage.

Regulatory investigation

The U.S. Department of Justice and other federal agencies routinely conduct regulatory investigations and other compliance audits of healthcare providers. The Center is subject to these regulatory efforts. Management is currently unaware of any regulatory matters that may have a material effect on the Center’s financial position or results of operations.

Litigation

The Center has been named in various litigation claims in the normal course of its operations. The ultimate outcome with respect to these matters cannot be estimated at this time. Management, after taking into consideration legal counsel's evaluation, is of the opinion that these matters will not have a material adverse effect on the Center's financial statements. Accordingly, no loss provision has been made in the accompanying financial statements.

17. Subsequent Events

In preparing these financial statements, management has evaluated events and transactions for potential recognition or disclosure through December 31, 2020, the date the financial statements were available to be issued.

On March 11, 2020, the World Health Organization declared COVID-19 a global pandemic. The COVID-19 pandemic has significantly impacted operations during the subsequent fiscal year, and there is a substantial amount of uncertainty as to how future viral outbreaks could impact the Center. Initially at the beginning of the pandemic, the Center experienced reduced patient volumes and operating revenues. In addition, the type of procedures performed in the clinics resulted in lower reimbursement and it has impacted operating revenues during 2020. Further, the changing global economic conditions or potential global health concerns surrounding the COVID-19 pandemic may also affect the Center’s partners, suppliers, distributors and payors, potentially disrupting or delaying the Center’s supply chain and delaying reimbursement by governmental, commercial or private payors, as well as impacting their creditworthiness and ability to pay. The Center has implemented various cost saving measures to help mitigate any financial impact, utilized telehealth to provide visits, and has entered into various contracts to modify existing services or expand services with various District of Columbia (“DC”) organizations to provide primary care services to various segments of the DC population. In addition, the DC Department of Health Care Finance obtained CMS approval to implement an alternative payment methodology that will result in an increase in Medicaid reimbursement for the Center as compared to the prior “fee for service” (“FFS”) payment methodology. Instead of paying claims for Medicaid FFS patients seen in clinics, Federally Qualified Health Clinics in DC receive a payment based on a “per attributed member per month basis” (“PMPM”) under the new payment methodology. In September 2020, the Center received approximately $8,500,000 in PMPM Medicaid reimbursement for the period from March 2020 to August 2020 and expects to continue to receive enhanced reimbursement throughout this public health emergency.

In addition to the direct impact to the health care industry, global investment and financial markets have experienced substantial volatility, with significant declines attributed to COVID-19 concerns and associated economic impacts of the curtailment of public life described above. As with nearly all industries and companies operating through the COVID-19 pandemic, the Center expects to encounter further volatility and disruption in its operations and in the local, national, and global economies.

Although the Center has activated plans to address the COVID-19 threat and is operating pursuant to infectious disease protocols and its emergency preparedness plan, the potential impact of the COVID-19 pandemic is difficult to predict and could materially adversely impact the Center's financial condition, liquidity and results of operations in the future.

On March 27, 2020, the federal Coronavirus Aid, Relief and Economic Security ("CARES") Act was signed into law, which is intended to provide economic relief and emergency assistance for individuals, families and businesses affected by COVID-19. Various state governments are also taking action to provide economic relief and emergency assistance. The Center was awarded funding under the CARES Act of approximately $4,100,000 of which approximately $2,500,000 has been received subsequent to year end. The Center is able to utilize these funds to the extent the conditions for entitlement to such funding for healthcare related expenses or lost revenues to prevent, prepare for or respond to COVID-19, have been met resulting in the simultaneous release of restrictions. The funds are also subject to future audits and potential adjustment and certain amounts may need to be repaid to the government.

18. Liquidity and Availability

The Center has working capital of approximately $12,500,000 and $11,800,000 and average days cash on hand of 16 and 21, at December 31, 2019 and 2018, respectively.

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

	2019	2018
Cash and cash equivalents	**$ 5,673,778**	$ 6,691,579
Patient services receivable, net	**7,994,062**	8,845,075
Contracts receivable	**8,445,300**	3,804,169
	$ 22,113,140	$ 19,340,823

Compliance Section

DIXON HUGHES GOODMAN LLP

Independent Auditors' 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
Unity Health Care, Inc.

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 financial statements of Unity Health Care, Inc. (the Center) which comprise the statement of financial position as of December 31, 2019, and the related statements of activities and changes in net assets and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 31, 2020.

Internal Control over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or 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 over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. We did identify certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs as items 2020-001 and 2020-002, that we consider to be a material weakness and a significant deficiency, respectively.

DIXON HUGHES GOODMAN LLP

Compliance and Other Matters

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

Unity Health Care, Inc.'s Corrective Action Plan

Unity Health Care, Inc.'s corrective action plan regarding the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Unity Health Care, Inc.'s corrective action plan was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.

Dixon Hughes Goodman LLP

Richmond, Virginia
December 31, 2020

DIXON HUGHES GOODMAN LLP

Independent Auditors' Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance

Board of Directors
Unity Health Care, Inc.

Report on Compliance for Each Major Federal Program

We have audited Unity Health Care, Inc.'s (the Center's) compliance with the types of compliance requirements described in the *OMB Compliance Supplement that* could have a direct and material effect on each of the Center's major federal programs for the year ended December 31, 2019. The Center's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

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

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Center's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Center's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the Center 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 December 31, 2019.

DIXON HUGHES GOODMAN LLP

Report on Internal Control over Compliance

Management of the Center is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Center's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance with Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Center's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Purpose of this Report

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 Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Dixon Hughes Goodman LLP

Richmond, Virginia
December 31, 2020

Unity Health Care, Inc.
Schedule of Expenditures of Federal Awards
Year Ended December 31, 2019

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Grantor's Number	Passed Through to Subrecipients	Federal Expenditures
U.S. Department of Health and Human Services:				
Direct programs:				
Health Center Program Cluster - Consolidated Health Centers (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, and Public Housing Primary Care)	93.224	N/A	$ -	$ 11,049,878
Grants for Capital Development in Health Centers	93.527	N/A	-	381,907
				11,431,785
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918	N/A	-	576,714
Family Planning Services	93.217	N/A	647,102	1,398,680
Passed through District of Columbia Department of Health:				
HIV Emergency Relief Project Grants	93.914	HAHSTA2017-000040	-	338,383
Passed through George Washington University/NIAID:				
Allergy and Infectious Deseases Research	93.855	5UM1A1069503	-	220,944
Total U.S. Department of Health and Human Services			647,102	13,966,506
U.S. Department of Agriculture:				
Passed through District of Columbia Department of Health:				
Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)	10.557	1DC700700	-	965,502
Special Supplemental Nutrition Program for Women, Infants, and Children food commodities	10.557	1DC700700	-	3,129,274
Total U.S. Department of Agriculture			-	4,094,776
Total expenditures of federal awards			$ 647,102	$ 18,061,282

Notes to Schedule of Expenditures of Federal Awards

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the schedule) includes the federal award activity of the Center under programs of the federal government for the year ended December 31, 2019. 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 Center it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Center.

2. Summary of Significant Accounting Policies

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, or the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

3. Indirect Cost Rate

Unity Health Care, Inc. has not elected to use the ten percent de minimis indirect cost rate as allowed under the Uniform Guidance.

Schedule of Findings and Questioned Costs

Section I - Summary of Auditors' Results

Financial Statements

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	_X_ Yes ___ No
Significant deficiency(ies) identified that are not considered to be material weakness(es)?	_X_ Yes ___ None reported
Noncompliance material to financial statements noted?	___ Yes _X_ No

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	___ Yes _X_ No
Significant deficiency(ies) identified that are not considered to be material weakness(es)?	___ Yes _X_ None reported
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with section 2 CFR 200.516(a) of the Uniform Guidance?	___ Yes _X_ No

Identification of major programs:

CFDA or Other Identifying Number	Name of Federal Program or Cluster
93.217	U.S. Department of Health and Human Services: Family Planning Services
10.557	U.S. Department of Agriculture: Passed through District of Columbia Department of Health: Special Supplemental Program for Women, Infants and Children (WIC)

Auditee qualified as low-risk auditee? _X_ Yes ___ No

Section II – Financial Statement Findings

Finding 2020-001

MATERIAL WEAKNESS

Criteria:	The Center's internal control over financial reporting is a process designed to provide reasonable assurance that the financial statements are free of material errors.
Condition:	During our audit, we noted that the Center did not have a formal methodology for estimating the allowance for doubtful accounts. Additionally, management did not have a sufficient understanding of lease and put-option transactions involving subsidiary entities and third parties. These deficiencies resulted in material adjustments the Center's financial records.
Effect:	The Center's allowance was overstated and the Company's receivables were understated by approximately $3,900,000. Additionally, the deferred rent liability and other revenue was understated by approximately $4,500,000.
Cause:	No formal methodology and review of the allowance for doubtful accounts and insufficient understanding of lease and put-option transactions and related accounting treatment.
Recommendation:	We recommend that the management design and implement controls such that the allowance for doubtful accounts is accurately recorded with respect to expected future collections on accounts. Additionally, we recommend that management obtain a sufficient understanding of these transactions and the appropriate accounting treatment for such transactions
Views of Responsible Officials:	Refer to corrective action plan.

Finding 2020-002

SIGNIFICANT DEFICIENCY

Criteria:	The Center's internal control over financial reporting is a process designed to provide reasonable assurance that the financial statements are free of material errors.
Condition:	During our audit, we noted that certain account balances containing activity was not appropriate for the respective account description. Additionally, the lack of proper oversight over the journal entry posting process and review of general ledger account activity resulted in account balances that were not reconciled to underlying support in a timely and accurate manner.
Effect:	Numerous adjustments to general ledger accounts to reconcile back to underlying supporting detail. The turnover of personnel without a properly implemented transition process led to certain loss of institutional knowledge and contributed to significant delays in the audit process as requests and inquiries could not be readily addressed by management in a timely manner.
Cause:	Management and staff did not maintain proper integrity in posting journal entries to the general ledger due to a lack of a change management process to facilitate the transition of key members of the finance department.
Recommendation:	We recommend that the Company design and implement controls to prevent and detect such improper journal entries as well as establish a formal change management process.
Views of Responsible Officials:	Refer to corrective action plan.

Section III - Federal Award Findings and Questioned Costs

No matters were reported.

Prior Audit Findings

There were no prior year audit findings.

Corrective Action Plan

Healthier You. Healthier Communities.

1100 New Jersey Avenue, SE, Suite 500, Washington, DC 20003

Corrective Action Plan

For Fiscal Year Ended December 31, 2019

Material Weakness

2020-001

Condition:

During our audit, we noted that the Center did not have a formal methodology for estimating the allowance for doubtful accounts. Additionally, management did not have a sufficient understanding of lease and put-option transactions involving subsidiary entities and third parties. These deficiencies resulted in material adjustments the Center's financial records.

Contact Person:

Kara Onorato, CFO

Corrective Action:

Management will engage a firm to conduct a third party revenue cycle audit. It will provide a full assessment of the revenue cycle from registration through claim adjudication and payment posting. The result will be a tool that provides more reliable and comprehensive data which will allow for more accurate reporting on revenues, payment and denial trends, doubtful accounts and receivables. Management will engage consultants with expertise in the particular subject matter that pertain to infrequent non-routine and complex accounting transactions such as the put-option transaction.

Proposed Completion Date:

Management will implement the above procedures immediately.

Significant Deficiency

2020-002

Condition:

During our audit, we noted that certain account balances containing activity was not appropriate for the respective account description. Additionally, the lack of proper oversight over the journal entry posting process and review of general ledger account activity resulted in account balances that were not reconciled to underlying support in a timely and accurate manner.

Contact Person:

Kara Onorato, CFO

Corrective Action:

The following changes will be made:

- New Accounting system: a new accounting system will be implemented with greater financial controls which resulted in the increased functionality to lock out users from the ability to post journal entries that have not been reviewed and approved.
- Monitoring of month end close: As part of that system installation and overall month end close process, management will implement a more robust month close process with monthly account reconciliations and sign offs to provide greater oversite and to help identify any corrections that need to be made within the general ledger in a timely fashion.
- Documentation of staff responsibility: Management will complete the documentation of responsibilities of staff and store it electronically to ensure that there will be no gaps in succession.

Proposed Completion Date:

Management will implement the above procedures immediately.