



AND AFFILIATES

**CONSOLIDATED FINANCIAL STATEMENTS IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS AND
UNIFORM GUIDANCE
SEPTEMBER 30, 2019 AND 2018**

EAST BOSTON NEIGHBORHOOD HEALTH CENTER CORPORATION AND AFFILIATES

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September 30, 2019 and 2018

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**Unmodified Opinion on Consolidated Financial Statements Accompanied by
Other Information – Not-For-Profit Entity**

Independent Auditor's Report

To the Board of Directors of
East Boston Neighborhood Health Center Corporation and Affiliates:

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of East Boston Neighborhood Health Center Corporation and Affiliates (Massachusetts corporations, not for profit) (collectively, the Agency) which comprise the consolidated statements of financial position as of September 30, 2019 and 2018, and the related consolidated statements of activities and changes in net assets, cash flows and functional expenses for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 consolidated 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 consolidated financial statements referred to on page one present fairly, in all material respects, the consolidated financial position of the Agency as of September 30, 2019 and 2018, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As disclosed in Note 2 to the consolidated financial statements, in fiscal year 2019, the Agency adopted Accounting Standards Update No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to that matter.

Other Matters

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 for the year ended September 30, 2019, 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 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 information 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 11, 2019, on our consideration of the Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 the Agency's 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 Agency's internal control over financial reporting and compliance.

AAFCPA, Inc.

Westborough, Massachusetts
December 11, 2019

EAST BOSTON NEIGHBORHOOD HEALTH CENTER CORPORATION AND AFFILIATES

Consolidated Statements of Financial Position
September 30, 2019 and 2018

Assets	2019	2018
Current Assets:		
Cash and cash equivalents	\$ 13,611,181	\$ 14,193,291
Short-term investments	4,078,146	2,000,000
Patient accounts receivable, net of allowances	14,217,595	9,622,617
Grants, contracts and other receivables	924,105	4,334,833
Inventory	1,061,028	881,921
Prepaid expenses	2,303,978	1,797,329
Total current assets	<u>36,196,033</u>	<u>32,829,991</u>
Cash Surrender Value	<u>796,204</u>	<u>1,660,568</u>
Restricted Cash	<u>516,232</u>	<u>1,225,060</u>
Notes Receivable and Accrued Interest	<u>26,171,119</u>	<u>26,076,026</u>
Property, Plant and Equipment:		
Land	6,059,172	5,755,462
Land improvements	171,616	171,616
Buildings and improvements	46,208,929	36,496,556
Leasehold improvements	6,668,395	6,652,724
Computer and office equipment	19,723,475	18,594,648
Vehicles	1,755,315	1,633,003
Medical and clinical equipment	6,981,921	7,056,652
	<u>87,568,823</u>	<u>76,360,661</u>
Less - accumulated depreciation	<u>42,623,668</u>	<u>38,985,845</u>
Net property, plant and equipment	<u>44,945,155</u>	<u>37,374,816</u>
Construction in Process	<u>-</u>	<u>8,576,866</u>
Total assets	<u>\$ 108,624,743</u>	<u>\$ 107,743,327</u>
Liabilities and Net Assets		
Current Liabilities:		
Current portion of long-term debt	\$ 973,559	\$ 936,295
Accounts payable	3,754,616	4,874,643
Accrued expenses	12,939,376	14,068,036
Deferred revenue	139,330	281,206
Current portion of due to third parties	5,916,713	5,510,646
Total current liabilities	<u>23,723,594</u>	<u>25,670,826</u>
Long-term Liabilities:		
Post-retirement benefit obligations	436,246	953,796
Due to third parties, net of current portion	726,991	726,991
Interest rate swap contract in loss position	109,380	123,655
Long-term debt, net of current portion and unamortized debt issuance costs	49,717,883	50,349,393
Total long-term liabilities	<u>50,990,500</u>	<u>52,153,835</u>
Net Assets:		
Without donor restrictions:		
Operating	14,449,384	8,023,680
Property, plant and equipment	17,414,982	18,598,614
Total without donor restrictions	<u>31,864,366</u>	<u>26,622,294</u>
With donor restrictions	<u>2,046,283</u>	<u>3,296,372</u>
Total net assets	<u>33,910,649</u>	<u>29,918,666</u>
Total liabilities and net assets	<u>\$ 108,624,743</u>	<u>\$ 107,743,327</u>

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

EAST BOSTON NEIGHBORHOOD HEALTH CENTER CORPORATION AND AFFILIATES

Consolidated Statements of Activities and Changes in Net Assets
For the Years Ended September 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Changes in Net Assets Without Donor Restrictions:		
Operating revenue and support:		
Net patient service revenue	\$ 80,793,213	\$ 73,517,919
PACE premium revenue	51,062,905	45,360,124
Grants, contracts and contributions	17,844,566	17,653,406
Capitation/risk sharing revenue	2,851,980	5,061,598
Interest, rental and other income	2,157,467	2,073,290
Donated rent and services	297,217	1,027,174
Net assets released from restrictions	1,379,119	75,000
	<u>156,386,467</u>	<u>144,768,511</u>
Operating expenses:		
Program services	126,685,777	120,839,389
General and administrative	24,931,943	22,477,782
Fundraising	141,017	112,108
	<u>151,758,737</u>	<u>143,429,279</u>
Changes in net assets without donor restrictions from operations	<u>4,627,730</u>	<u>1,339,232</u>
Non-operating revenue (expense):		
Donated property	488,825	-
Interest and other income	344,187	150,422
Forgiveness of note payable	100,000	100,000
Unrealized gain on carrying value of interest rate swap contract	14,275	153,522
Capital grant	-	181,616
Reorganization costs	(332,945)	-
	<u>614,342</u>	<u>585,560</u>
Changes in net assets without donor restrictions	<u>5,242,072</u>	<u>1,924,792</u>
Changes in Net Assets With Donor Restrictions:		
Grants and contributions	129,030	228,945
Net assets released from operating restrictions	(1,379,119)	(75,000)
	<u>(1,250,089)</u>	<u>153,945</u>
Total changes in net assets	3,991,983	2,078,737
Net Assets:		
Beginning of year	<u>29,918,666</u>	<u>27,839,929</u>
End of year	<u>\$ 33,910,649</u>	<u>\$ 29,918,666</u>

EAST BOSTON NEIGHBORHOOD HEALTH CENTER CORPORATION AND AFFILIATES

Consolidated Statements of Cash Flows
For the Years Ended September 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Cash Flows from Operating Activities:		
Changes in net assets	\$ 3,991,983	\$ 2,078,737
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	3,836,167	4,052,033
Amortization of debt issuance costs charged as interest expense	380,470	178,437
Forgiveness of note payable	(100,000)	(100,000)
Capital grant	-	(181,616)
(Increase) decrease in cash surrender value of life insurance	864,364	(109,174)
Increase in accrued interest on notes receivable	(95,093)	(41,537)
Donated property	(488,825)	-
Unrealized gain on carrying value of interest rate swap contract	(14,275)	(153,522)
Changes in operating assets and liabilities:		
Patient accounts receivable	(4,594,978)	(830,032)
Grants, contracts and other receivables	3,410,728	(1,028,365)
Inventory	(179,107)	128,146
Prepaid expenses	(506,649)	256,143
Accounts payable	(1,120,027)	(553,647)
Accrued expenses	(1,128,660)	4,119,378
Deferred revenue	(141,876)	(2,586,860)
Due to third parties	406,067	2,358,021
Post-retirement benefit obligations	(517,550)	138,535
Net cash provided by operating activities	<u>4,002,739</u>	<u>7,724,677</u>
Cash Flows from Investing Activities:		
Issuance of notes receivable	-	(7,200,453)
Payments received on notes receivable	-	450,000
Debt issuance costs	-	(767,159)
Withdrawals (deposits to and interest earned) on restricted cash	708,828	(873,156)
Acquisition of property, plant and equipment	(2,340,815)	(632,713)
Cash paid for construction in process	-	(7,960,611)
Purchase of and interest earned on certificates of deposit	(2,078,146)	(2,000,000)
Net cash used in investing activities	<u>(3,710,133)</u>	<u>(18,984,092)</u>
Cash Flows from Financing Activities:		
Principal payments on long-term debt	(874,716)	(730,361)
Proceeds from issuance of long-term debt	-	17,650,000
Capital grant	-	181,616
Net cash provided by (used in) financing activities	<u>(874,716)</u>	<u>17,101,255</u>
Net Change in Cash and Cash Equivalents	(582,110)	5,841,840
Cash and Cash Equivalents:		
Beginning of year	<u>14,193,291</u>	<u>8,351,451</u>
End of year	<u>\$ 13,611,181</u>	<u>\$ 14,193,291</u>
Supplemental Disclosure of Cash Flow Information:		
Cash paid for interest	<u>\$ 1,031,544</u>	<u>\$ 963,277</u>
Construction in progress placed in service	<u>\$ 8,576,866</u>	<u>\$ -</u>
Donated property	<u>\$ 488,825</u>	<u>\$ -</u>

EAST BOSTON NEIGHBORHOOD HEALTH CENTER CORPORATION AND AFFILIATES

Consolidated Statement of Functional Expenses
 For the Year Ended September 30, 2019
 (With Summarized Comparative Totals for the Year Ended September 30, 2018)

	2019								2018	
	Program Services					Total Program Services	General and Administrative	Fundraising	Total	Total
Clinical	PACE	Pharmacy	Enabling Services	Special Programs						
Personnel and Related Costs:										
Salaries and wages	\$ 36,648,783	\$ 12,918,639	\$ 1,373	\$ 5,537,116	\$ 435,816	\$ 55,541,727	\$ 12,888,559	\$ 59,516	\$ 68,489,802	\$ 66,662,172
Payroll taxes and employee benefits	8,020,066	2,832,405	-	1,199,374	88,847	12,140,692	2,749,288	-	14,889,980	16,968,748
Total personnel and related costs	44,668,849	15,751,044	1,373	6,736,490	524,663	67,682,419	15,637,847	59,516	83,379,782	83,630,920
Occupancy:										
Depreciation	618,055	1,285,466	11,005	94,527	19,973	2,029,026	1,807,141	-	3,836,167	4,052,033
Occupancy	1,573,412	675,633	38,685	312,276	160,432	2,760,438	537,322	-	3,297,760	3,072,145
Utilities	574,925	434,892	15,543	72,588	10,119	1,108,067	371,283	-	1,479,350	1,471,434
Interest expense	176,324	608,392	4,336	27,448	4,020	820,520	591,494	-	1,412,014	1,141,714
Rent	249,205	284,996	-	212,857	47,642	794,700	468,703	-	1,263,403	1,491,035
Insurance	196,216	6,100	-	25,203	-	227,519	446,085	-	673,604	514,116
Total occupancy	3,388,137	3,295,479	69,569	744,899	242,186	7,740,270	4,222,028	-	11,962,298	11,742,477
Other Costs:										
Purchased services	3,068,798	7,687,428	4,771,675	532,410	57,572	16,117,883	1,875,696	-	17,993,579	14,105,383
Medical expenses	4,078,462	3,380,446	7,888,123	2,603	265	15,349,899	34,451	-	15,384,350	13,482,744
Institutional	-	13,924,239	-	-	-	13,924,239	-	-	13,924,239	12,535,418
Administrative and general supplies and expense	865,133	511,401	35,744	177,253	130,673	1,720,204	5,640,989	81,501	7,442,694	6,397,107
Transportation	102,593	1,301,670	-	55	3,848	1,408,166	263,629	-	1,671,795	1,535,230
Total other costs	8,114,986	26,805,184	12,695,542	712,321	192,358	48,520,391	7,814,765	81,501	56,416,657	48,055,882
Total expenses before allocations	56,171,972	45,851,707	12,766,484	8,193,710	959,207	123,943,080	27,674,640	141,017	151,758,737	143,429,279
Enabling Allocation	1,321,394	-	-	(1,321,394)	-	-	-	-	-	-
General and Administrative Allocation	135,258	2,607,439	-	-	-	2,742,697	(2,742,697)	-	-	-
Total expenses	\$ 57,628,624	\$ 48,459,146	\$ 12,766,484	\$ 6,872,316	\$ 959,207	\$ 126,685,777	\$ 24,931,943	\$ 141,017	\$ 151,758,737	\$ 143,429,279

EAST BOSTON NEIGHBORHOOD HEALTH CENTER CORPORATION AND AFFILIATES

Consolidated Statement of Functional Expenses
For the Year Ended September 30, 2018

	Program Services					Total Program Services	General and Administrative	Fundraising	Total
	Clinical	PACE	Pharmacy	Enabling Services	Special Programs				
Personnel and Related Costs:									
Salaries and wages	\$ 37,371,247	\$ 12,311,159	\$ 5,400	\$ 5,657,337	\$ 412,970	\$ 55,758,113	\$ 10,855,309	\$ 48,750	\$ 66,662,172
Payroll taxes and employee benefits	8,645,307	3,065,802	3,083	1,390,393	112,221	13,216,806	3,751,942	-	16,968,748
Total personnel and related costs	46,016,554	15,376,961	8,483	7,047,730	525,191	68,974,919	14,607,251	48,750	83,630,920
Occupancy:									
Depreciation	623,023	1,075,420	11,285	96,475	20,037	1,826,240	2,225,793	-	4,052,033
Occupancy	1,548,726	430,754	38,643	209,232	266,591	2,493,946	577,976	223	3,072,145
Utilities	562,285	369,241	19,905	60,351	21,296	1,033,078	438,356	-	1,471,434
Interest expense	173,171	383,286	4,259	26,957	3,948	591,621	550,093	-	1,141,714
Rent	362,378	278,907	-	268,397	138,433	1,048,115	442,920	-	1,491,035
Insurance	197,399	8,000	-	21,785	-	227,184	286,932	-	514,116
Total occupancy	3,466,982	2,545,608	74,092	683,197	450,305	7,220,184	4,522,070	223	11,742,477
Other Costs:									
Purchased services	1,782,130	6,727,645	4,213,714	371,662	66,694	13,161,845	924,379	19,159	14,105,383
Medical expenses	3,764,045	2,870,907	6,797,374	1,372	994	13,434,692	48,052	-	13,482,744
Institutional	-	12,535,418	-	-	-	12,535,418	-	-	12,535,418
Administrative and general supplies and expense	828,544	519,115	27,997	172,056	123,011	1,670,723	4,682,408	43,976	6,397,107
Transportation	101,920	836,504	-	65	4,605	943,094	592,136	-	1,535,230
Total other costs	6,476,639	23,489,589	11,039,085	545,155	195,304	41,745,772	6,246,975	63,135	48,055,882
Total expenses before allocations	55,960,175	41,412,158	11,121,660	8,276,082	1,170,800	117,940,875	25,376,296	112,108	143,429,279
Enabling Allocation	1,218,729	-	-	(1,218,729)	-	-	-	-	-
General and Administrative Allocation	114,050	2,784,464	-	-	-	2,898,514	(2,898,514)	-	-
Total expenses	<u>\$ 57,292,954</u>	<u>\$ 44,196,622</u>	<u>\$ 11,121,660</u>	<u>\$ 7,057,353</u>	<u>\$ 1,170,800</u>	<u>\$ 120,839,389</u>	<u>\$ 22,477,782</u>	<u>\$ 112,108</u>	<u>\$ 143,429,279</u>

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

EAST BOSTON NEIGHBORHOOD HEALTH CENTER CORPORATION AND AFFILIATES

Notes to Consolidated Financial Statements
September 30, 2019 and 2018

1. OPERATIONS AND NONPROFIT STATUS

Operations

East Boston Neighborhood Health Center Corporation (the Health Center) is a not-for-profit corporation organized in September 1974. The Health Center's mission is to safely and effectively provide easily accessible, personalized, high quality, affordable care that is sensitive to the needs of each individual who lives or works in East Boston, Massachusetts and surrounding communities regardless of the ability to pay.

The Health Center provides medical, dental, vision, behavioral health, radiological, and laboratory services in a community setting, and develops and promotes research programs aimed at the prevention, detection, and treatment of common chronic medical conditions. Reimbursements for services to patients are covered by Medicare, Medicaid, and contracted insurance programs. The Health Center is also the recipient of Federal, state, and private grants in support of its services. The Health Center also participates in a Program of All-inclusive Care for the Elderly (PACE), commonly referred to as Neighborhood PACE, which is dually administered by the Medicare and Medicaid programs.

Affiliates

Twenty Maverick Square Corporation (TMS) and Ten Garofalo Street Corporation (TGS) (not-for-profit corporations) became affiliates of the Health Center as part of New Markets Tax Credits (NMTC) financing agreements (see Note 7). The Health Center is the sole corporate member of both TMS and TGS, which are property holding companies for the Health Center. Subsequent to September 30, 2019, the NMTC Unwind took place for TMS (see Note 19).

Nonprofit Status

The Health Center, TMS, and TGS are exempt from Federal income taxes as organizations (not private foundations) for charitable purposes under Section 501(c)(3) of the Internal Revenue Code (IRC). The Health Center, TMS, and TGS are also exempt from state income taxes. Donors may deduct contributions made to the Health Center, TMS, and TGS within the IRC regulations.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Health Center, TMS, and TGS prepare their consolidated financial statements in accordance with generally accepted accounting standards and principles (U.S. GAAP) established by the Financial Accounting Standards Board (FASB). References to U.S. GAAP in these notes are to the FASB Accounting Standards Codification (ASC).

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Health Center and its affiliates, TMS and TGS (collectively, the Agency). All significant balances between classes of net assets, intercompany balances and transactions have been eliminated in the accompanying consolidated financial statements.

Recently Adopted Accounting Pronouncement

During fiscal year 2019, the Agency adopted FASB's Accounting Standards Update 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. This ASU addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses. The Agency has adjusted the presentation of these consolidated financial statements accordingly.

EAST BOSTON NEIGHBORHOOD HEALTH CENTER CORPORATION AND AFFILIATES

Notes to Consolidated Financial Statements
September 30, 2019 and 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recently Adopted Accounting Pronouncement (Continued)

The adoption of this ASU did not impact the Agency's net asset classes, results of operations, or cash flows for the year ended September 30, 2018. This ASU has been applied retrospectively to all periods presented. This ASU provides an option to omit disclosures about liquidity and availability of resources for the fiscal year 2018 consolidated financial statements.

Recently Issued Accounting Pronouncements

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*. The standard's core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. This standard also includes expanded disclosure requirements that result in an entity providing users of financial statements with comprehensive information about the nature, amount, timing, and uncertainty of revenue and cash flows arising from the entity's contracts with customers. This standard will be effective for the fiscal year ending September 30, 2020.

In February 2016, the FASB issued ASU 2016-02, *Leases*. The standard requires all leases with lease terms over twelve months to be capitalized as a right-of-use asset and lease liability on the consolidated statement of financial position at the date of lease commencement. Leases will be classified as either finance or operating. This distinction will be relevant for the pattern of expense recognition in the consolidated statement of activities and changes in net assets. This standard will be effective for the fiscal year ending September 30, 2022.

In June 2018, the FASB issued ASU 2018-08, *Not-For-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The standard assists entities in evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal) transactions. Distinguishing between contributions and exchange transactions determines which revenue or expense recognition guidance is to be applied. Exchange transactions entered into by entities will be accounted within the scope of ASC 606, *Revenue from Contracts with Customers*, or other applicable guidance, while the guidance related to accounting for contributions received is included in Subtopic 958-605, *Not-for-Profit Entities – Revenue Recognition*. This standard will be effective for the fiscal year ending September 30, 2020, for resource recipients (contributions received).

The Agency is currently in the process of evaluating the impact of adoption of these ASUs on the consolidated financial statements.

Estimates

The preparation of consolidated financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

For the purpose of the consolidated statements of cash flows, management considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents, excluding restricted cash.

EAST BOSTON NEIGHBORHOOD HEALTH CENTER CORPORATION AND AFFILIATES

Notes to Consolidated Financial Statements
September 30, 2019 and 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Assets

Net assets consist of the following:

Net Assets Without Donor Restrictions

Net assets without donor restrictions are those net resources that bear no external restriction and are generally available for use by the Agency. The Agency has grouped its net assets without donor restrictions into the following categories:

Operating net assets represent funds available to carry on the operations of the Agency.

Property, plant and equipment net assets reflect and account for the activities relating to the Agency's property, plant and equipment, including related reserves, notes receivable and accrued interest, net of related debt.

Net Assets With Donor Restrictions

The Agency receives contributions and grants that are designated by donors for specific purposes and time periods. These contributions and grants are recorded as net assets with donor restrictions until they are expended for their designated purposes. Net assets with donor restrictions are purpose restricted for the following as of September 30:

	<u>2019</u>	<u>2018</u>
Lyman School activities	\$ 1,862,372	\$ 3,047,592
Community outreach	<u>183,911</u>	<u>248,780</u>
Total net assets with donor restrictions	<u>\$ 2,046,283</u>	<u>\$ 3,296,372</u>

Income Taxes

The Agency accounts for uncertainty in income taxes in accordance with ASC Topic, *Income Taxes*. This standard clarifies the accounting for uncertainty in tax positions and prescribes a recognition threshold and measurement attribute for the consolidated financial statements regarding a tax position taken or expected to be taken in a tax return. The Agency has determined that there are no uncertain tax positions which qualify for either recognition or disclosure in the consolidated financial statements at September 30, 2019 and 2018. The Agency's information returns are subject to examination by Federal and state jurisdictions.

Advertising

The Agency expenses advertising costs as they are incurred. Advertising expense for the years ended September 30, 2019 and 2018, was approximately \$169,000 and \$155,000, respectively, and is included in administrative and general supplies and expense in the accompanying consolidated statements of functional expenses.

Short-Term Investments

Short-term investments as of September 30, 2019, consist of three certificates of deposit with maturity dates ranging from March 2020 to September 2020 and bearing interest at rates ranging from 1.75% to 2.30%. Short-term investments as of September 30, 2018, consist of two certificates of deposit with maturity dates of March 28, 2019 and September 27, 2019, and bear interest at 2.18% and 2.37%, respectively.

EAST BOSTON NEIGHBORHOOD HEALTH CENTER CORPORATION AND AFFILIATES

Notes to Consolidated Financial Statements
September 30, 2019 and 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventory

Inventory, including medical and pharmaceutical supplies, is stated at the lower of cost or market and is determined based on the first-in, first-out method.

Donated Property

During fiscal year 2019, the Agency purchased a building for \$488,825 below its market value. This discount represents an in-kind contribution to the Agency. This amount is reflected as donated property in the accompanying consolidated statement of activities and changes in net assets for the year ended September 30, 2019.

Donated Rent and Services

During fiscal years 2019 and 2018, the Agency received donated rent and professional services, which are included in donated rent and services in the accompanying consolidated statements of activities and changes in net assets and rent, and administrative and general supplies and expense in the accompanying consolidated statements of functional expenses based upon the value assigned to them by the donating individuals and management.

The value of the rent and services is as follows for the years ended September 30:

	<u>2019</u>	<u>2018</u>
Rent	\$ 297,217	\$ 291,967
Services	<u>-</u>	<u>735,207</u>
	<u>\$ 297,217</u>	<u>\$ 1,027,174</u>

During fiscal year 2018, the Agency received in-kind services related to its electronic medical records system which ended on August 31, 2018.

Property, Plant and Equipment and Depreciation

Property, plant and equipment are recorded at cost, if purchased, or at fair value at the date of receipt, if donated. Renewals and betterments are capitalized, while expenditures for maintenance and repairs are charged to operations as incurred.

Depreciation is computed using the straight-line method over the following estimated useful asset lives:

Buildings and improvements and land improvements	20 - 40 years
Medical and clinical equipment	5 - 10 years
Computer and office equipment	5 - 10 years
Leasehold improvements	Term of lease
Vehicles	5 years

The Agency accounts for the carrying value of its property, plant and equipment in accordance with the requirements of ASC Topic, *Impairment and Disposal of Long-Lived Assets*. As of September 30, 2019 and 2018, the Agency has not recognized any reduction in the carrying value of its property, plant and equipment in consideration of the requirement.

EAST BOSTON NEIGHBORHOOD HEALTH CENTER CORPORATION AND AFFILIATES

Notes to Consolidated Financial Statements
September 30, 2019 and 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Construction in Process

Included in construction in process at September 30, 2018, were costs related to the expansion of the Neighborhood PACE program. In fiscal year 2018, the Health Center and TGS closed on NMTC financing for the project (see Notes 7 and 8). The total estimated cost of the project was approximately \$10,000,000; the facility opened during fiscal year 2019 and the assets were placed in to service.

Debt Issuance Costs

The Agency incurred certain debt issuance costs as a result of the long-term debt agreements (see Note 8). Debt issuance costs are amortized over the period the related obligation is outstanding using the straight-line method, which approximates the effective interest method. Amortization expense was \$380,470 and \$178,437 for the years ended September 30, 2019 and 2018, respectively, and is included in interest expense in the accompanying consolidated statements of functional expenses.

Deferred Revenue

Deferred revenue consists of payments received in advance of services being provided. Amounts will be recognized as revenue as services are provided and costs are incurred.

Restricted Cash

Restricted cash consists of amounts restricted by donors, funds to be used to pay construction costs in accordance with NMTC debt agreements (see Note 8), and ACO reserves (see Note 16).

Fair Value Measurements

The Agency follows the accounting disclosure standards pertaining to ASC Topic, *Fair Value Measurements*, for qualifying assets and liabilities. Fair value is defined as the price that the Agency would receive upon selling an asset or pay to settle a liability in an orderly transaction between market participants.

The Agency uses a framework for measuring fair value that includes a hierarchy that categorizes and prioritizes the sources used to measure and disclose fair value. This hierarchy is broken down into three levels based on inputs that market participants would use in valuing the financial instruments based on market data obtained from sources independent of the Agency. Inputs refer broadly to the assumptions that market participants would use in pricing the financial instrument, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the financial instrument developed based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset developed based on the best information available. The three-tier hierarchy of inputs is summarized in the three broad levels as follows:

- Level 1: Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date. Instruments which are generally included in this category include equity and debt securities publicly traded on an exchange.

EAST BOSTON NEIGHBORHOOD HEALTH CENTER CORPORATION AND AFFILIATES

Notes to Consolidated Financial Statements
September 30, 2019 and 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measurements (Continued)

Level 2: Inputs other than quoted prices in active markets that are observable for the asset either directly or indirectly, including inputs in markets that are not considered to be active.

Level 3: Inputs that are unobservable and which require significant judgment or estimation.

An asset or liability's level within the framework is based upon the lowest level of any input that is significant to the fair value measurement.

Interest Rate Swap Contract:

The fair value of the interest rate swap contract is the estimated amount that the Agency would have to pay to receive or terminate the contract as of the consolidated statement of financial position date, taking into account current interest rates and the current credit worthiness of the swap counterparty. These inputs to the fair value estimate are considered Level 2 in the fair value hierarchy (see Note 9).

Post-Retirement Benefit Obligation:

The fair value of the post-retirement benefit obligation is the estimated annual cost of insurance taking into account certain key assumptions, such as estimated retirement dates, discount rates, accretion of cash surrender of value of the Health Center's life insurance policies, and life expectancy. These inputs to the fair value estimate are considered Level 2 in the fair value hierarchy (see Note 13).

All Other Assets and Liabilities:

The carrying value of all other assets and liabilities, including long-term debt, does not differ materially from its estimated fair value and are considered Level 1 in the fair value hierarchy.

Revenue Recognition

Patient service revenue is recorded as services are provided. The Health Center establishes fees for services to patients based upon the patients' ability to pay for these services. Net patient service revenue reflects the amounts to be collected after provisions for contractual allowances and free care. Contractual allowances are recorded in the period the related services are rendered. Net patient service revenue is adjusted as required based on agreed upon rates and final settlements. In general, the Health Center is reimbursed from third party payors based on negotiated rates, procedural fee schedules, and discounted charges. Contractual allowances were approximately \$59,647,000 and \$52,877,000 for the years ended September 30, 2019 and 2018, respectively.

Measuring Charity Care

The Health Center has a policy of providing free care services to patients who are unable to pay or to those who may be underinsured. Such patients are identified based upon financial information obtained from the patient prior to services being rendered. The Health Center provided approximately \$39,916,000 and \$37,846,000 of free care services during the years ended September 30, 2019 and 2018, respectively.

EAST BOSTON NEIGHBORHOOD HEALTH CENTER CORPORATION AND AFFILIATES

Notes to Consolidated Financial Statements
September 30, 2019 and 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition (Continued)

Measuring Charity Care (Continued)

The cost of providing these services was approximately \$27,966,000 and \$27,671,000 for the years ended September 30, 2019 and 2018, respectively. The cost of providing free care was calculated by multiplying the percentage of gross free care charges to total gross patient charges by the total cost of providing patient services. Massachusetts law provides coverage for healthcare services via Health Safety Net (HSN). The Health Center received partial reimbursement from HSN for free care services of approximately \$17,221,000 and \$18,033,000 for the years ended September 30, 2019 and 2018, respectively. During fiscal year 2018, the Health Center changed their policy for recording HSN revenue to coincide with the period services are provided. This change resulted in additional revenue of approximately \$2,000,000 for the year ended September 30, 2018.

Contract revenue is recorded over the contract period as services are provided. Grants, contracts and contributions without donor restrictions are recorded as revenue when received or unconditionally pledged.

Restricted grants, contracts and contributions are recorded as revenue and net assets with donor restrictions when received or unconditionally pledged. Transfers are made to net assets without donor restrictions as costs are incurred or as time restrictions or program restrictions have lapsed and are shown as net assets released from restrictions in the accompanying consolidated statements of activities and changes in net assets.

The Commonwealth of Massachusetts (the Commonwealth) provides vouchers to participants of the Health Center's Women, Infants and Children program. The value of these vouchers for fiscal years 2019 and 2018 was approximately \$1,780,000 and \$1,844,000, respectively. These amounts are not reflected in the accompanying consolidated financial statements.

Rental income is recognized over the lease term. All other revenue is recorded when earned.

Patient Accounts Receivable and Allowance for Doubtful Accounts

Patient accounts receivable are stated at unpaid balances, less reserves for doubtful accounts and contractual allowances. The Agency provides for losses on patient accounts receivable using the allowance method. The allowance is based on experience, third-party contracts, and other circumstances which may affect the ability of patients to meet their obligations. Receivables are considered impaired if full payments are not received in accordance with the contractual terms. It is the Agency's policy to charge-off uncollectible patient accounts receivable when management determines the receivable will not be collected. As of September 30, 2019 and 2018, the allowance was approximately \$8,831,000 and \$7,968,000, respectively.

Grants, Contracts and Other Receivables

Grants, contracts and other receivables are carried at the original invoice amount. Grants, contracts and other receivables are written off when deemed uncollectible. An allowance for doubtful accounts is recorded based on management's analysis of specific accounts and their estimate of amounts that may become uncollectible based upon historical collection rates. There was no allowance recorded at September 30, 2019 and 2018.

EAST BOSTON NEIGHBORHOOD HEALTH CENTER CORPORATION AND AFFILIATES

Notes to Consolidated Financial Statements
September 30, 2019 and 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Expense Classifications

Expenses related directly to a function are distributed to that function, while other expenses are allocated based upon management's estimate of the percentage attributable to each function.

The consolidated financial statements contain certain categories of expenses that are attributable to program and supporting functions and are allocated on a reasonable basis that is consistently applied. The expenses that are allocated include salaries and wages and payroll taxes and employee benefits, which are allocated based on an estimate of time and level of effort spent on the Agency's program and supporting functions. The expenses that are allocated based on square footage include occupancy.

Consolidated Statements of Activities and Changes in Net Assets

Transactions deemed by management to be ongoing, major, or central to the provision of program services are reported as operating revenue and support and operating expenses in the accompanying consolidated statements of activities and changes in net assets. Non-operating revenue (expense) includes capital activity, interest and other income, forgiveness of note payable, unrealized gain on carrying value of interest rate swap contract, and reorganization costs.

Subsequent Events

Subsequent events have been evaluated through December 11, 2019, which is the date the consolidated financial statements were available to be issued. See Note 19 for events that met the criteria for disclosure in the consolidated financial statements.

3. FUNDING

Grants, Contracts and Contributions

The Agency receives funding from several agencies to assist with its programs and operating costs. The Agency charges patients and third parties for services provided.

The Agency also receives funding from various other governmental agencies to assist with program expenses and operating costs. These grants, contracts and contributions have been expended in accordance with the respective terms contained in the agreements and are subject to possible final audit determination by certain governmental agencies. In the opinion of management, the results of such audits, if any, will not have a material effect on the consolidated financial position of the Agency as of September 30, 2019 and 2018, or on their changes in net assets for the years then ended.

Patient Service Revenue

Charges made to most third-party payors for patient services are periodically reviewed and adjusted based upon possible subsequent audits. In the opinion of management, such determinations, if any, will not have a material effect on the consolidated financial position of the Agency as of September 30, 2019 and 2018, or on their changes in net assets for the years then ended.

Management has estimated certain amounts due to third parties for various patient services which are included in due to third parties in the accompanying consolidated statements of financial position.

EAST BOSTON NEIGHBORHOOD HEALTH CENTER CORPORATION AND AFFILIATES

Notes to Consolidated Financial Statements
September 30, 2019 and 2018

3. FUNDING (Continued)

Patient Service Revenue (Continued)

Advance

During fiscal year 2018, the Health Center received an interest-free cash advance from a third-party payor in the amount of \$3,102,477. During fiscal year 2019, approximately \$748,000 was repaid. Outstanding balance of this advance as of September 30, 2019 and 2018, was \$2,354,312 and \$3,102,477, respectively and is included in the current portion of due to third parties in the accompanying consolidated statements of financial position. The advance is expected to be repaid in full during fiscal year 2020.

4. CONCENTRATIONS

The Agency maintains the majority of their cash balances in regional banks. The Federal Deposit Insurance Corporation (FDIC) insures balances at each bank up to certain amounts. At certain times during the year, cash balances exceeded the insured amount. The Agency has not experienced any losses in such accounts. The Agency believes they are not exposed to any significant credit risk on cash and cash equivalents. Management monitors, on a regular basis, the financial institutions, along with their balances, to keep this potential risk to a minimum. The Agency also maintains cash in banks insured by the Depositor Insurance Fund (DIF). DIF insures all balances over \$250,000. The Agency had approximately \$2,836,000 and \$2,796,000 insured under these programs at September 30, 2019 and 2018, respectively.

The Health Center's third party revenue and gross accounts receivables at September 30, 2019 and 2018, consist of the following concentrations:

Payor	2019		2018	
	Percentage of Net Third Party Revenue	Percentage of Gross Accounts Receivable	Percentage of Net Third Party Revenue	Percentage of Gross Accounts Receivable
PACE:				
Medicare and Medicaid	99%	- %	99%	- %
Patient Service:				
Medicaid and related	40%	21%	29%	24%
HSN	24%	41%	26%	10%

5. PROGRAM OF ALL-INCLUSIVE CARE FOR THE ELDERLY

The PACE program provides managed care concepts to an acute and long-term care service delivery system for fragile elders who are certified by the Commonwealth and Centers for Medicaid and Medicare Services as having met nursing home admission criteria. The Health Center is recognized by the National PACE Association as an approved PACE provider.

The Health Center is reimbursed for services based on a per capita monthly rate. The Health Center recognized revenue of approximately \$51,063,000 and \$45,360,000 for the years ended September 30, 2019 and 2018, respectively. These amounts are included in PACE premium revenue in the accompanying consolidated statements of activities and changes in net assets.

EAST BOSTON NEIGHBORHOOD HEALTH CENTER CORPORATION AND AFFILIATES

Notes to Consolidated Financial Statements
September 30, 2019 and 2018

5. PROGRAM OF ALL-INCLUSIVE CARE FOR THE ELDERLY (Continued)

The Health Center is contracted to provide or arrange for covered services for enrollees. Covered services include acute hospital care, clinical laboratory services, home health care, adult day care, and any other medical Medicaid and Medicare reimbursable services. The Health Center is responsible for the long-term care of the participants in this program. In certain cases, the cost to care for these participants could exceed the per capita amount received. The Health Center's reimbursement is settled by Medicare annually based upon certain criteria. Any settlement as of September 30, 2019, is not determinable. During fiscal year 2019, Medicare determined a settlement of approximately \$503,000 was due to the Health Center for calendar year 2018 services. During fiscal year 2018, Medicare determined a settlement of approximately \$1,087,000 was due to the Health Center for calendar year 2017 services. These settlements are included in PACE premium revenue in the accompanying consolidated statements of activities and changes in net assets in the year in which they were received.

6. CASH SURRENDER VALUE

The Health Center has two key-man life insurance policies on former members of management (see Note 13). Upon mortality, the Health Center is entitled to the face value of the policies. The cash surrender value at September 30, 2019 and 2018, relating to these policies was \$796,204 and \$1,660,568, respectively. The premium is recorded as life insurance expense and is included in payroll taxes and employee benefits in the accompanying consolidated statements of functional expenses. During fiscal year 2019, the Health Center received a settlement payment of approximately \$860,000 in accordance with this policy.

7. NOTES RECEIVABLE

Twenty Maverick Square Project (TMS Project)

During fiscal year 2012, the Health Center acquired land with the intent to construct a building for the expansion of its medical, vision, dental, and wellness services (TMS Project). The TMS Project was funded by a Federal grant award, NMTC equity, and proceeds from a leveraged loan to fund the East Boston Neighborhood Health Center Investment Fund, LLC (EBNHC IF).

The NMTC program offers credits against Federal income taxes over a seven-year period (the compliance period) for Qualified Equity Investments (QEIs) in certified Community Development Entities (CDEs) pursuant to Section 45D of the IRC. To claim the NMTC, the CDEs must use substantially all of the proceeds of the QEIs to make a loan and/or an equity investment, which are qualified low-income community investments (QLICI), as defined in Section 45D of the IRC, to a Qualified Active Low Income Community Business (QALICB). TMS is a QALICB and sub-leases the building to the Health Center to operate the TMS Project in a manner intended to enable TMS to continue to qualify as a QALICB for the purposes of the NMTC within the meaning of Section 45D of the IRC.

The EBNHC IF, using NMTC equity and a loan from the Health Center, made QEIs into four CDEs (collectively, TMS CDEs) for a 99.99% membership interest in the TMS CDEs. The TMS CDEs used the proceeds of the QEIs to provide loans to TMS (see Note 8). Subsequent to September 30, 2019, the Health Center purchased the sole member's interest in EBNHC IF (see Note 19).

EAST BOSTON NEIGHBORHOOD HEALTH CENTER CORPORATION AND AFFILIATES

Notes to Consolidated Financial Statements
September 30, 2019 and 2018

7. NOTES RECEIVABLE (Continued)

Twenty Maverick Square Project (TMS Project) (Continued)

As part of funding for the TMS Project, the Health Center entered into a note receivable agreement with EBNHC IF using proceeds from the Series 2012 Bonds (see Note 8) and unrestricted cash. The note receivable of \$15,990,392 bears interest at 1.278% through September 1, 2037. Beginning in December 2012, accrued interest on the outstanding principal is due quarterly with a one-time principal payment of \$20,000 due in September 2019. Beginning in March 2020, quarterly principal and interest payments of \$251,769 are due. Any remaining balance of principal and interest shall be due on September 1, 2037. Interest income of \$204,357 was earned on this note during fiscal years 2019 and 2018 and is included in interest, rental and other income in the accompanying consolidated statements of activities and changes in net assets.

As security for the note receivable, EBNHC IF pledged and assigned to the Health Center a first priority security interest and a lien on all of its rights, title and equity interest in the TMS CDEs.

Ten Garofalo Street Project (TGS Project)

During fiscal year 2017, the Health Center acquired land with the intent to construct a building for the expansion of its PACE program (TGS Project). The TGS Project was funded by NMTC equity and proceeds from a leveraged loan to fund the Chase NMTC EBNHC Investment Fund, LLC (Chase IF).

TGS is a QALICB and leases the building to the Health Center to operate the TGS Project in a manner intended to enable TGS to continue to qualify as a QALICB for the purposes of the NMTC within the meaning of Section 45D of the IRC.

The Chase IF, using NMTC equity and a loan from the Health Center, made QEIs into three CDEs (collectively, TGS CDEs) for a 99.99% membership interest in the TGS CDEs. The TGS CDEs used the proceeds of the QEIs to provide loans to TGS (see Note 8).

As part of funding the TGS Project, the Health Center entered into a note receivable agreement with Chase IF using proceeds from the Series 2017 Bonds (see Note 8) and unrestricted cash. The note receivable of \$7,200,453 bears interest at 1% through June 30, 2049. Beginning in December 2017, accrued interest on the outstanding principal is due monthly. Beginning in January 2028, all accrued and unpaid interest, plus an amount of principal sufficient to amortize the outstanding principal over the remaining term of the note, will be due quarterly. Any remaining balance of principal and interest is due on June 30, 2049. Interest income of \$72,347 and \$60,289 was earned on this note during fiscal years 2019 and 2018, respectively, and is included in interest, rental and other income in the accompanying consolidated statements of activities and changes in net assets.

As security for the note receivable, Chase IF pledged and assigned to the Health Center a first priority security interest in the TGS CDEs.

EAST BOSTON NEIGHBORHOOD HEALTH CENTER CORPORATION AND AFFILIATESNotes to Consolidated Financial Statements
September 30, 2019 and 2018**7. NOTES RECEIVABLE (Continued)****Other Notes Receivable**

The Health Center has two notes receivable from an unrelated third-party. The notes bear interest at 3.75% and annual payments of principal and interest are due beginning on May 1, 2017. Payments are limited to a maximum of 50% of net cash flow of the unrelated third-party. No amounts were due in fiscal year 2019 or 2018. The loans totaling \$2,599,014 are forty-year loans where all unpaid principal and interest are due on April 14, 2056. Unpaid accrued interest on these notes was approximately \$381,000 and \$286,000 as of September 30, 2019 and 2018, respectively, and is included in notes receivable and accrued interest in the accompanying consolidated statements of financial position.

Notes receivable are summarized below as of and for the years ended September 30:

	<u>2019</u>	<u>2018</u>
EBNHC IF	\$ 15,990,392	\$ 15,990,392
Chase IF	7,200,453	7,200,453
Lyman School:		
Purchase money loan	2,495,776	2,495,776
Reserve loan	<u>103,238</u>	<u>103,238</u>
Total Agency	25,789,859	25,789,859
Accrued interest	<u>381,260</u>	<u>286,167</u>
Total Agency notes receivable and accrued interest	<u>\$ 26,171,119</u>	<u>\$ 26,076,026</u>

8. LONG-TERM DEBT AND DEBT ISSUANCE COSTS

Long-term debt consists of the following at September 30:

	<u>2019</u>	<u>2018</u>
The Health Center:		
\$7,564,000 Massachusetts Development Finance Agency (MDFA) Revenue Bonds (Series 2006 Bonds) payable to TD Bank, N.A., with interest at 69% of the one-month London Interbank Offered Rate (LIBOR), plus 1.278% (2.73% at September 30, 2019 and 2018). Monthly principal and interest payments are due through July 2026. The Series 2006 Bonds are secured by the Health Center's accounts receivable and contain various covenants with which the Health Center must comply. The Health Center was in compliance with these covenants as of September 30, 2019 and 2018.	\$ 3,429,400	\$ 3,832,100

EAST BOSTON NEIGHBORHOOD HEALTH CENTER CORPORATION AND AFFILIATES

Notes to Consolidated Financial Statements
September 30, 2019 and 2018

8. LONG-TERM DEBT AND DEBT ISSUANCE COSTS (Continued)

	<u>2019</u>	<u>2018</u>
The Health Center: (Continued)		
<p>\$10,400,000 City of Boston, Massachusetts Industrial Development Financing Authority (IDFA) Bonds (Series 2012 Bonds) payable to TD Bank, N.A., with interest at 2.4% annually that mature on September 1, 2037. Monthly principal and interest payments of \$46,316 are due through March 6, 2020 (Mandatory Tender Date), at which time this bond is subject to mandatory tender and outstanding principal of \$7,913,000 and accrued interest are due. The bond owner has the option to retain this bond on the Mandatory Tender Date. The proceeds from the Series 2012 Bonds were used to make a loan to EBNHC IF (see Note 7). The Series 2012 Bonds are secured by the Health Center's accounts receivable and certain property and contain various covenants with which the Health Center must comply. The Health Center was in compliance with these covenants as of September 30, 2019 and 2018. The Health Center is in negotiations to refinance this obligation (see page 20 and Note 19).</p>	8,085,780	8,439,873
<p>\$7,000,000 MDFA Revenue Bonds (Series 2017 Bonds) payable to TD Bank, N.A., with annual interest at 3.03% through December 2017, and 3.856% beginning in January 2018. Monthly interest-only payments of \$22,806 were due through September 2018. Beginning in October 2018, monthly principal and interest payments of \$37,503 are due through August 2042. The proceeds from the Series 2017 Bonds were used to make a loan to Chase IF (see Note 7). The Series 2017 Bonds are secured by the Health Center's revenues, accounts receivable, a pledge of the Health Center's loan from Chase IF (see Note 7), and certain property, and contain various covenants with which the Health Center must comply. The Health Center was in compliance with these covenants as of September 30, 2019 and 2018.</p>	6,882,077	7,000,000
<p>\$1,000,000 ten-year forgivable loan with Boston Medical Center (BMC) through 2023. The loan bears interest at the prime rate plus 2% (7.00% and 7.25% at September 30, 2019 and 2018, respectively). Under the terms of the loan agreement, 10% of the original principal, plus accrued interest, will be forgiven annually. The accrued interest has not been recorded since the Health Center was in compliance as of September 30, 2019 and 2018, and plans to continue to comply with the terms of the agreement. Of this note, \$100,000 was forgiven during fiscal years 2019 and 2018, and is reflected as forgiveness of note payable in the accompanying consolidated statements of activities and changes in net assets. This note is secured by the Health Center's personal property.</p>	300,000	400,000

EAST BOSTON NEIGHBORHOOD HEALTH CENTER CORPORATION AND AFFILIATES

Notes to Consolidated Financial Statements
September 30, 2019 and 2018

8. LONG-TERM DEBT AND DEBT ISSUANCE COSTS (Continued)

	<u>2019</u>	<u>2018</u>
TMS:		
Five notes payable to the TMS CDEs (see Note 7), with an interest rate of 1.42%. Quarterly interest-only installments are due until November 30, 2019. Beginning on December 1, 2019, quarterly principal and interest installments of \$285,521 are due through December 2042. The notes are secured by a leasehold mortgage on property, as well as an assignment of leases and rents and personal property. The notes have certain covenants with which TMS must comply. TMS was in compliance with these covenants at September 30, 2019 and 2018.	22,376,000	22,376,000
TGS:		
Four notes payable to the TGS CDEs, with an interest rate of .686%. Quarterly interest-only installments are due until November 30, 2027. Beginning in March 2028, quarterly principal and interest installments of \$103,615 are due through December 2055. A one-time principal payment of \$100,000 is due in October 2024. The notes are secured by all project leases and certain property, as well as an assignment of leases and rents and personal property. The notes have certain covenants with which TGS must comply. TGS was in compliance with these covenants at September 30, 2019 and 2018.	<u>10,650,000</u>	<u>10,650,000</u>
Total Agency	51,723,257	52,697,973
Less - unamortized debt issuance costs	1,031,815	1,412,285
Less - current portion of long-term debt	<u>973,559</u>	<u>936,295</u>
	<u>\$ 49,717,883</u>	<u>\$ 50,349,393</u>

The Health Center has received a proposal from a bank to refinance the Series 2012 Bonds described on page 19. The financed note would be in an amount up to \$8,000,000 and interest would be fixed at 3.42% for the first ten years. The note term would be for thirty years. The debt maturity table reflects the proposed terms of the refinance.

Aggregate annual maturities of long-term debt and imputed interest on debt issuance costs are as follows over the next five years:

<u>Years Ending September 30</u>	<u>Principal Payments</u>	<u>Imputed Interest on Debt Issuance Costs</u>
2020	\$ 973,559	\$ 130,929
2021	\$ 1,008,523	\$ 124,726
2022	\$ 1,048,803	\$ 124,726
2023	\$ 1,087,615	\$ 124,726
2024	\$ 1,229,779	\$ 124,726

EAST BOSTON NEIGHBORHOOD HEALTH CENTER CORPORATION AND AFFILIATES

Notes to Consolidated Financial Statements
September 30, 2019 and 2018

9. INTEREST RATE SWAP CONTRACT

To hedge against potential interest rate exposure under the Series 2006 Bonds, the Health Center has entered into an interest rate swap contract with a bank under the following terms, which effectively fixes the interest rate on the bonds as of September 30, 2019 and 2018:

Notional Amount at September 30, 2019	\$ 3,429,400
Notional Amount at September 30, 2018	\$ 3,832,100
Fixed Rate Assumed	4.825%
Basis for Variable Rate Assumed by Counterparty	69% of US LIBOR
Maturity Date	February 1, 2021
Counterparty	TD Bank

The swap contract is reported at fair value in the accompanying consolidated statements of financial position. Fair value was derived using Level 2 inputs (see Note 2), including prevailing credit spreads, market liquidity, assumed transaction and hedging costs, and other factors.

Any gain or loss on the value of the swap contract is recorded as changes in net assets without donor restrictions.

For the years ended September 30, 2019 and 2018, the Health Center recorded unrealized gains of \$14,275 and \$153,522, respectively, on the swap contract. The swap contract was in a loss position of \$109,380 and \$123,655 as of September 30, 2019 and 2018, respectively.

10. LINE OF CREDIT

The Health Center has a working capital line of credit with a bank, expiring on July 30, 2020, under which the Health Center is permitted to borrow up to \$2,000,000. Outstanding amounts on the line of credit bear interest at the bank's prime rate plus 1% (6.00% and 6.25% as of September 30, 2019 and 2018, respectively). The note is collateralized by a security interest in the Health Center's property. No amounts were outstanding on the line of credit at September 30, 2019 and 2018. The agreement is also subject to the same financial and reporting covenants as the Health Center's bonds.

11. COMMITMENTS

The Health Center has granted the sole member (Sole Member) of the EBNHC IF the option (the TMS Put Option) to sell its entire membership interest in the EBNHC IF to the Health Center. The TMS Put Option may be exercised by the Sole Member at any time during the period beginning at the end of the tax credit investment period (September 2019) and ending six months after the Sole Member receives notice from the Health Center that the Sole Member may exercise its option (Put Option Period). The put price is an amount equal to \$1,000.

In the event that the Sole Member does not exercise the TMS Put Option, the Health Center has the right and option at any time during the six month period following the Put Option Period (the Call Option Period) to purchase the membership interest. The call price is determined based upon a calculation as defined in the put and call agreement.

Subsequent to September 30, 2019, the Sole Member exercised the TMS Put Option (see Note 19).

The Health Center has granted the fund member (Fund Member) of the Chase IF the right and option (the TGS Put Option) to sell its entire membership interest in Chase IF to the Health Center during the put option period (as defined in the agreement). The put price is defined in the Chase Investment Fund put and call agreement.

EAST BOSTON NEIGHBORHOOD HEALTH CENTER CORPORATION AND AFFILIATES

Notes to Consolidated Financial Statements
September 30, 2019 and 2018

11. COMMITMENTS (Continued)

If the Fund Member does not exercise the TGS Put Option, the Health Center has the right and option (the Call) to purchase the Fund Member's interest during the 120 calendar day period following the expiration of the put option period. The call price is determined based upon a calculation as defined in the put and call agreement.

The Agency has entered into an agreement and plan of merger with another health center in Boston, Massachusetts. The agreement contains various pre-closing requirements that have not yet been met. The Agency incurred costs totaling \$332,945 during fiscal year 2019 in relation to this potential merger, which are shown as reorganization costs in the accompanying consolidated statement of activities and changes in net assets.

12. OPERATING LEASES

The Health Center leases various properties for administrative and program space under non-cancelable operating leases expiring at various dates through September 30, 2022. During the years ended September 30, 2019 and 2018, the Health Center incurred rent expense of \$966,186 and \$1,199,068, respectively, which is included in rent in the accompanying consolidated statements of functional expenses.

Future minimum lease payments under these agreements are as follows:

2020	\$ 730,775
2021	\$ 587,502
2022	\$ 405,271

13. RETIREMENT PLANS

The Health Center maintains a qualified defined contribution retirement plan under which all full-time and certain part-time employees are eligible to participate at the beginning of the quarter that follows their initial start date. The Health Center provides a matching contribution of \$0.65 for every dollar, up to 4% of eligible employees' salary, as outlined in the plan document. Contributions made by the Health Center to the plan for the years ended September 30, 2019 and 2018, were \$1,258,987 and \$1,296,716, respectively, and are included in payroll taxes and employee benefits in the accompanying consolidated statements of functional expenses.

The Health Center entered into individual post-retirement benefit agreements with certain officers of the Health Center in 2011. The agreements stipulate that upon retirement, the Health Center will provide a post-retirement life insurance benefit, funded by an existing policy (see Note 6) owned by the Health Center. The agreements stipulate that the Health Center will maintain the life insurance policies of these certain officers until the Health Center's policy lapses. An estimate has been accrued to record the net present value of the estimated annual cost of insurance, with certain key assumptions, such as estimated retirement dates, discount rates, accretion of cash surrender value of the Health Center's life insurance policies, and life expectancy. The accrual at September 30, 2019 and 2018, was \$150,000 and \$500,000, respectively, and is included in post-retirement benefit obligations in the accompanying consolidated statements of financial position. There was no life insurance expense for the year ended September 30, 2019. The life insurance expense for the year ended September 30, 2018, was \$220,000 and is included in payroll taxes and employee benefits in the accompanying consolidated statement of functional expenses. During fiscal year 2019, the Health Center settled with the family of one of the former officers for \$250,000, which was funded from the proceeds received from the insurance policy as disclosed in Note 6.

EAST BOSTON NEIGHBORHOOD HEALTH CENTER CORPORATION AND AFFILIATES

Notes to Consolidated Financial Statements
September 30, 2019 and 2018

13. RETIREMENT PLANS (Continued)

Additionally, the Health Center entered into individual post-retirement health benefit agreements with certain retired employees. The Health Center will pay for certain employees' medical expenses for five years after retirement of the individual. The accrual at September 30, 2019 and 2018, was \$286,246 and \$453,796, respectively, and is included in post-retirement benefit obligations in the accompanying consolidated statements of financial position. The health benefit expense for years ended September 30, 2019 and 2018, was \$131,479 and \$187,388, respectively, and is included in payroll taxes and employee benefits in the accompanying consolidated statements of functional expenses.

14. CONTINGENCIES

The Agency, from time-to-time, is the defendant in lawsuits. It is management's experience and the opinion of legal counsel that the Agency will prevail in these lawsuits. Accordingly, no amounts have been reflected in the accompanying consolidated financial statements for any potential liability resulting from these lawsuits.

15. MEDICAL MALPRACTICE INSURANCE

The healthcare industry is subject to voluminous and complex laws and regulations of Federal, state and local governments. Compliance with such laws and regulations can be subject to future government review and interpretation, as well as regulatory actions unknown or unasserted at this time. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government healthcare program participation requirements, reimbursement laws and regulations, anti-kickback and anti-referral laws, and false claims prohibitions.

The Health Center is insured for professional liability coverage through the Federal Bureau of Primary Health Care, known as the Federal Tort Claims Act (FTCA), in accordance with the Public Health Services Act. This coverage is provided to the Health Center through its Section 330 Community Health Center grant administered by HRSA. The coverage afforded the Health Center is comparable to an occurrence-based policy without a monetary cap. The coverage is applicable to the Health Center, its officers, Board members, employees, and contractors who are physicians or other licensed or certified health care practitioners. The Health Center also maintains a supplemental claims-made professional liability policy.

16. ACCOUNTABLE CARE ORGANIZATION

The Health Center is a member of Community Care Cooperative (C3), an Accountable Care Organization (ACO). C3 is a non-profit health care corporation organized to take responsibility for managing the cost and quality of health care for its members. The Health Center entered into a participating agreement with C3 for the purpose of arranging for the provision of health services by federally qualified health centers to MassHealth beneficiaries. The participating center agreement is a value-based payment arrangement in which the rewards and risks of performance with respect to the payor's goals for cost and quality are shared. The initial performance year ended on December 31, 2018.

EAST BOSTON NEIGHBORHOOD HEALTH CENTER CORPORATION AND AFFILIATES

Notes to Consolidated Financial Statements
September 30, 2019 and 2018

16. ACCOUNTABLE CARE ORGANIZATION (Continued)

The cost of care benchmarks and performance criteria will be calculated by C3 as defined in the participating center agreement. The Health Center elects one of three risk tiers annually and will share in cost savings or losses in accordance with specific criteria in the participating center agreement. The Health Center recorded a reserve of approximately \$1,367,000 and \$824,000 for potential downside risk as of September 30, 2019 and 2018, respectively. This amount is included in current portion of due to third parties in the accompanying consolidated statement of financial position. Additionally, under the ACO agreement, the Health Center was required to set aside reserves of \$143,783 at September 30, 2019, for potential liabilities owed to the Commonwealth, which is included in restricted cash in the accompanying consolidated statement of financial position. No such reserves were required as of September 30, 2018.

17. RELATED PARTY TRANSACTIONS

The Health Center is affiliated with BMC as a licensed, hospital-based community health center. Thus, the Health Center is reimbursed as an outpatient department of BMC for Medicare, Medicaid, and HSN. The Health Center's Medicare and HSN reimbursement is paid through BMC.

The Health Center contracts with BMC for provider services in the Health Center's Obstetrics and Gynecology (OB/GYN) department. For the years ended September 30, 2019 and 2018, the Health Center paid BMC \$329,678 and \$433,145, respectively, for OB/GYN services rendered and owed BMC \$18,506 and \$58,606 as of September 30, 2019 and 2018, respectively, which is included in accounts payable in the accompanying consolidated statements of financial position.

For the years ended September 30, 2019 and 2018, the Health Center paid Boston University Family Medicine (BUFM) (an affiliate of BMC) \$1,029,636 and \$1,006,544, respectively, for family medicine provider services. At September 30, 2019 and 2018, the Health Center owed BUFM \$133,721 and \$259,404, respectively, which are included in accounts payable in the accompanying consolidated statements of financial position. The Health Center bills and collects directly for outpatient services performed by BMC contracted providers.

The Health Center's PACE program also contracts with BMC for inpatient and outpatient medical services for its participants. For the years ended September 30, 2019 and 2018, the Health Center incurred expenses from BMC in the amount of \$3,336,392 and \$3,554,999, respectively. No amount was outstanding as of September 30, 2019. At September 30, 2018, the Health Center owed BMC \$103,614, which is included in accounts payable in the accompanying consolidated statement of financial position.

The Health Center contracts with Evans Medical Foundation (Evans), an affiliate of BMC, which provides cardiology and internal medicine services for the Health Center. For the years ended September 30, 2019 and 2018, the Health Center paid Evans \$546,229 and \$604,749, respectively, for services rendered. At September 30, 2019 and 2018, the Health Center owed Evans \$25,764 and \$60,764, respectively, which are included in accounts payable in the accompanying consolidated statements of financial position.

The Health Center contracts with Child Health Foundation of Boston, Inc. (Child Health), an affiliate of BMC, which provides pediatric services for the Health Center. For the years ended September 30, 2019 and 2018, the Health Center paid Child Health \$78,678 and \$24,193, respectively, for services rendered. At September 30, 2019, the Health Center owed Child Health \$6,889, which is included in accounts payable in the accompanying consolidated statement of financial position. No amount was outstanding as of September 30, 2018.

EAST BOSTON NEIGHBORHOOD HEALTH CENTER CORPORATION AND AFFILIATES

Notes to Consolidated Financial Statements
September 30, 2019 and 2018

17. RELATED PARTY TRANSACTIONS (Continued)

The Health Center has contracts with various Boston University Medical School (an affiliate of BMC) physicians for specialty services to be performed at the Health Center. For the years ended September 30, 2019 and 2018, the Health Center paid \$594,206 and \$686,765, respectively, for services rendered. At September 30, 2019 and 2018, the Health Center owed \$67,967 and \$53,613, respectively, which are included in accounts payable in the accompanying consolidated statements of financial position.

The Chief Executive Officer (CEO) and Chief Medical Officer of the Health Center are members of the Board of Directors of C3 (see Note 16).

The CEO of the Health Center is also on the Board of Directors of an insurance provider that provides employer sponsored health insurance to the employees of the Health Center. For the years ended September 30, 2019 and 2018, the Health Center paid \$6,612,667 and \$8,060,916, respectively.

From time-to-time, the Health Center receives grants from various agencies of which members of management of the Health Center are on the Board of Directors.

18. LIQUIDITY

The Agency's financial assets available within one year from the consolidated statement of financial position date for general operating expenses as of September 30, 2019, are as follows:

Cash and cash equivalents	\$ 13,611,181
Short-term investments	4,078,146
Patient accounts receivable, net of allowances	14,217,595
Grants, contracts and other receivables	<u>924,105</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 32,831,027</u>

The Health Center has a policy to structure its financial assets to be available and liquid as its obligations become due. As of September 30, 2019, the Health Center has financial assets equal to approximately three months of operating expenses. In addition, the Health Center has a line of credit agreement (see Note 10) which allows for additional available borrowings up to \$2,000,000.

19. SUBSEQUENT EVENTS

Subsequent to September 30, 2019, the Health Center, TMS, their lenders, the Sole Member, and EBNHC IF executed a series of transactions to unwind the TMS NMTC financing structure used to fund the TMS Project. The significant transactions were as follows:

- Pursuant to the TMS Put Option agreement, the Health Center purchased the Sole Member's interest in EBNHC IF for a put exercise price of \$1,000 (see Note 11) and the Health Center became the sole member of EBNHC IF.
- The Health Center received a principal payment of \$20,000 on their notes receivable from EBNHC IF and the balance of the notes receivable was forgiven.

The Health Center entered also into an agreement subsequent to year-end to sell land and an administrative building located in East Boston, Massachusetts for a sale price of \$20,000,000 subject to certain adjustments and post-closing payments.

EAST BOSTON NEIGHBORHOOD HEALTH CENTER CORPORATION AND AFFILIATES

Notes to Consolidated Financial Statements
September 30, 2019 and 2018

19. SUBSEQUENT EVENTS (Continued)

On December 4, 2019, the Health Center received a proposal from a bank to refinance the Series 2012 Bonds described in Note 8. The loan would be for an amount up to \$8,000,000 and would be for a thirty-year term.

20. RECLASSIFICATIONS

Certain amounts in the fiscal year 2018 consolidated financial statements have been reclassified to conform with the fiscal year 2019 consolidated presentation.

EAST BOSTON NEIGHBORHOOD HEALTH CENTER CORPORATION AND AFFILIATES

Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2019

Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. Department of Health and Human Services:			
Direct Program:			
Health Center Program Cluster:			
Health Center Program (Community Health Centers, Migrant Health Centers, Health Care for the Homeless and Public Housing Primary Care)	93.224	N/A	\$ 1,296,932
Grants for New and Expanded Services under the Health Center Program	93.527	N/A	<u>4,334,402</u>
Total Health Center Program Cluster			5,631,334
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918	N/A	252,995
Passed-Through Commonwealth of Massachusetts, Department of Public Health:			
HIV Prevention Activities Health Department Based	93.940	4944MM3181926018	38,895
HIV Care Formula Grants	93.917	4944MM3181926018	100,559
Passed-through Boston Public Health Commission:			
HIV Emergency Relief Project Grants	93.914	PO201902107 PO201801704 PO201801706 PO201801705 PO201902108	<u>170,113</u>
Total U.S. Department of Health and Human Services			<u>6,193,896</u>
U.S. Department of Agriculture:			
Passed-Through Commonwealth of Massachusetts, Department of Public Health:			
WIC Grants to States (WGS)	10.578	3502M03162726115	<u>300</u>
WIC Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	3500J10200717294	1,780,263 *
WIC Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	3502M03162726115	<u>658,847</u>
Total CFDA 10.557			<u>2,439,110</u>
Total U.S. Department of Agriculture			<u>2,439,410</u>
Total Expenditures of Federal Awards			<u><u>\$ 8,633,306</u></u>

Note 1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the Federal assistance activity of the Agency and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*.

Note 2. *This represents the WIC voucher amount. For purposes of the accompanying consolidated financial statements, the related revenue and expense amounts have been shown net.

Note 3. Indirect Cost Rate

The Agency has elected not to use the 10% de minimis cost rate for its Federal programs.



**Report on Internal Control Over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Consolidated Financial Statements Performed in Accordance
With Government Auditing Standards**

Independent Auditor's Report

To the Board of Directors of
East Boston Neighborhood Health Center Corporation 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 East Boston Neighborhood Health Center Corporation and Affiliates (collectively, the Agency), which comprise the consolidated statement of financial position as of September 30, 2019, and the related consolidated statements of activities and changes in net assets, cash flows and functional expenses for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated December 11, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Agency's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of the Agency'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 consolidated 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 may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

AAFCPA, Inc.

Westborough, Massachusetts
December 11, 2019



**Report on Compliance for Each Major Federal Program and Report on Internal Control
Over Compliance Required by the Uniform Guidance**

Independent Auditor's Report

To the Board of Directors of
East Boston Neighborhood Health Center Corporation and Affiliates:

Report on Compliance for Each Major Federal Program

We have audited East Boston Neighborhood Health Center Corporation and Affiliates' (collectively, the Agency) 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 Agency's major Federal programs for the year ended September 30, 2019. The Agency'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 Federal statutes, regulations, and the terms and conditions of its Federal awards applicable to its Federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the Agency'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 Agency'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 the major Federal programs. However, our audit does not provide a legal determination of the Agency's compliance.

Opinion on Each Major Federal Program

In our opinion, the Agency 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, 2019.

Report on Internal Control Over Compliance

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

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

AAFCPAs, Inc.

Westborough, Massachusetts
December 11, 2019

EAST BOSTON NEIGHBORHOOD HEALTH CENTER CORPORATION AND AFFILIATES

Schedule of Findings and Questioned Costs
September 30, 2019

1. SUMMARY OF AUDITOR’S RESULTS

Consolidated Financial Statements

Type of auditor’s report issued on whether the consolidated financial statements audited were prepared in accordance with GAAP: Unmodified

Is a “going concern” emphasis-of-matter paragraph included in the auditor’s report? Yes X No

Internal control over financial reporting:

- Material weakness(es) identified? Yes X No
- Significant deficiency(ies) identified? Yes X None reported

Noncompliance material to consolidated financial statements noted? Yes X No

Federal Awards

Internal control over major Federal programs:

- Material weakness(es) identified? Yes X No
- Significant deficiency(ies) identified? Yes X None reported

Type of auditor’s report issued on compliance for major Federal programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? Yes X No

Identification of major Federal programs:

<u>Name of Federal Program or Cluster</u>	<u>CFDA Number</u>
Health Center Program Cluster	93.224/93.527
WIC Special Supplemental Nutrition Program for Women, Infants, and Children	10.557

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

Auditee qualified as low-risk auditee? X Yes No

EAST BOSTON NEIGHBORHOOD HEALTH CENTER CORPORATION AND AFFILIATES

Schedule of Findings and Questioned Costs
September 30, 2019

2. CONSOLIDATED FINANCIAL STATEMENT FINDINGS

None

3. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None