

Report on Consolidated Audited Financial Statements

**Northern Nevada HIV Outpatient Program, Education and Services
Dba Northern Nevada HOPES**

For The Years Ended June 30, 2019 and 2018

Northern Nevada HOPES
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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Northern Nevada HOPES
Reno, Nevada

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Northern Nevada HOPES, which are comprised of the consolidated balance sheets as of June 30, 2019 and 2018, and the related consolidated statements of operations and change in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the 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 controls relevant to the preparation and fair presentation of the financial statements that are free from material misstatements, 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 did not audit the financial statements of NNH QALICB and NNH Support, both wholly-owned subsidiaries, which statements reflect 9.6% and 44.2% and 8.1% and 41.6%, respectively, of consolidated total net assets at June 30, 2019 and 2018. These statements were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to the amount included for NNH QALICB and NNH Support, is based solely on the reports of the other auditor. 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 audit 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Northern Nevada HOPES as of June 30, 2019 and 2018, and the changes in its net assets, and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the Center adopted Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements for Not-for-Profit Entities* and ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* for the year ended June 30, 2019. Our opinion is not modified with respect to this matter.

Other Matters

Supplementary 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 November 21, 2019 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, and 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 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.

CAW, LLP

Fresno, California
November 21,
2019

**Northern Nevada HOPES
Consolidated Balance Sheets**

	June 30,	
Assets	2019	2018
Current assets		
Cash and cash equivalents	\$ 4,057,114	\$ 7,219,889
Restricted cash	69,695	69,288
Investments	8,098,000	5,467,000
Patient accounts receivable, net	1,393,952	1,220,620
Grant, contract and other receivables	942,957	1,068,503
Estimated third-party payor settlements	257,169	258,193
Inventory	708,501	581,511
Prepaid expenses and deposits	134,344	183,619
Total current assets	15,661,732	16,068,623
Restricted cash, net of current	135,637	190,409
Notes receivable- state leverage loans	7,941,740	7,941,740
Property and equipment, net	13,058,082	13,165,820
Total assets	\$ 36,797,191	\$ 37,366,592
 Liabilities and net assets		
Current liabilities		
Accounts payable and accrued expenses	1,068,234	792,874
Accrued payroll and other related liabilities	796,536	562,885
Deferred revenue	135,189	301,989
Total current liabilities	1,999,960	1,657,749
Long-term debt, net of current and unamortized debt costs	18,830,000	18,830,000
Unamortized debt issuance costs	(2,214,435)	(2,359,671)
Total liabilities	18,615,525	18,128,078
Net assets		
Without donor restrictions	17,868,140	19,238,514
With donor restrictions	313,526	-
Total net assets	18,181,666	19,238,514
Total liabilities and net assets	\$ 36,797,191	\$ 37,366,592

See accompanying Notes to the Financial Statements

Northern Nevada HOPES
Consolidated Statements of Operation and Changes in Net Assets

	For the year ended June 30,	
	2019	2018
Changes in unrestricted net assets		
Revenue and other support		
Patient and third party revenue, net	23,575,867	24,837,632
Less provision for doubtful accounts	(56,068)	7,943
Net patient service revenue less provision	23,519,799	24,829,689
Grant revenue	8,214,088	7,110,275
In-kind and contribution revenue	1,140,217	185,803
Interest income and other revenues	390,253	252,913
Net asset released from restriction	10,827	-
Total unrestricted revenue and other support	33,275,184	32,378,680
Expenses		
Salaries and benefits	13,632,291	10,347,942
Professional fees	1,077,936	1,299,024
Pharmaceuticals and supplies	16,138,982	13,694,849
Client assistance and fees	1,102,394	892,975
Facilities	1,410,416	920,684
Depreciation	703,197	645,630
Insurance	121,106	95,290
Interest	340,249	341,192
Travel and conferences	116,720	124,527
Other	2,267	11,442
Total expenses	34,645,558	28,373,555
Change in net assets	(1,370,374)	4,005,125
Changes in donor restricted net assets		
Restricted contributions	324,353	-
Net asset released from restriction	(10,827)	-
Change in donor restricted net assets	313,526	-
Total change in net assets	(1,056,848)	4,005,125
Net assets		
Beginning of year	19,238,514	15,233,389
End of year	18,181,666	19,238,514

See accompanying Notes to the Financial Statements

**Northern Nevada HOPES
Consolidated Statements of Cash Flows**

	June 30,	
	2019	2018
Cash flows from operating activities		
Change in net assets	\$ (1,056,848)	\$ 4,005,125
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	703,197	645,630
Changes in operating assets and liabilities		
Change in patient accounts receivable	(173,332)	(126,552)
Change in grants and other receivables	125,542	(399,127)
Change in inventory	(126,990)	120,113
Change in prepaid expenses and deposits	49,275	(109,119)
Change in third-party settlements receivable	1,024	34,260
Change in accounts payable and accrued expenses	275,364	(356,973)
Change in accrued payroll and other related liabilities	233,651	165,956
Change in deferred revenue	(166,800)	75,186
Net cash provided by operating activities	(135,917)	4,054,499
Cash flows from investing activities		
Acquisition of property, building, and equipment	(450,223)	(200,396)
Purchases of investments, net	(2,631,000)	(2,467,000)
Change in restricted cash	54,365	123,064
Net cash used in investing activities	(3,026,858)	(2,544,332)
Net decrease in cash and cash equivalents	(3,162,775)	1,510,168
Cash and cash equivalents, beginning of year	7,219,889	5,709,721
Cash and cash equivalents, end of year	\$ 4,057,114	\$ 7,219,889
Supplemental disclosure of cash flow information		
Interest paid	340,249	341,192

See accompanying Notes to the Financial Statements

Northern Nevada HOPES
Notes to the Consolidated Financial Statements
June 30, 2019 and 2018

Note 1: Summary of Significant Accounting Policies

Organization: Northern Nevada HOPES (the "Center") was founded over 20 years ago as northern Nevada's only comprehensive HIV clinic and has expanded to offer a range of services to approximately 10,000 low-income men, women and children, including members of the LGBT community, drug users, sex workers, and individuals experiencing homelessness. The Center's welcoming and innovative one-stop-shop model helps our largely low-income client population access care by removing barriers such as distance, lack of transportation, fear of stigma, and inability to pay. Services are offered on a sliding fee scale and HOPES does not deny services due to inability to pay. The Center offers primary care, chronic disease management, behavioral health counseling, psychiatry services, medication assisted treatment for opiate addiction, social services, an on-site pharmacy, and more. We welcome patients wherever they are in life and provide them with a safe and accepting place to receive services that can enrich their lives and increase the likelihood of maintaining long-term health. The Center was designated as a Federally Qualified Health Center for Medicare and Medicaid reimbursement in May 2014.

NNH QALICB (the "Corporation") is a Nevada nonprofit public benefit corporation classified by the Internal Revenue Service as tax-exempt under section 501(c)(3) of the Internal Revenue Code of 1986. The Corporation was organized on November 7, 2014, for the sole purpose of supporting the mission of Northern Nevada HIV Outpatient Program, Education, and Services ("HOPES"), which coordinates care and support for individual and family wellness through a community health center located in Reno, Washoe County, Nevada (the "Property").

The Corporation's only activity is a lease of real property located in Reno, Nevada to one tenant, HOPES. Future operations could be affected by changes in the economic or other conditions in Reno, Nevada that would affect the activities of HOPES. The Corporation has not experienced any losses on its lease to the Center.

NNH Support (the "Corporation"), is a Nevada nonprofit public benefit corporation classified by the Internal Revenue Service as tax-exempt under section 501(c)(3) of the Internal Revenue Code of 1986. The Corporation was organized on November 7, 2014, for the sole purpose of supporting the mission of Northern Nevada HIV Outpatient Program, Education, and Services (the "Center").

The Corporation's major assets are loans to Stonehenge Nevada NMTC Investment Fund, LLC (the "Stonehenge Fund I"), Stonehenge Nevada NMTC Investment Fund II, LLC (the "Stonehenge Fund II"), and Enhanced Capital Nevada NMTC Investment Fund IV, LLC (the "Enhanced Fund IV") (collectively, the "Funds"). The Corporation's primary source of revenue is derived from these assets. The Funds' operations are reliant on distributions from investments in assets concentrated in Reno, Nevada. Future operations could be affected by changes in economic or other conditions that would affect the business of the Funds. The Corporation has not experienced any losses on its loans to the Funds.

Basis of Consolidation: The consolidated financial statements include the accounts of Northern Nevada HIV Outpatient Program, Education and Services (HOPES) (and its subsidiaries NNH QALICB and NNH Support). All intercompany transactions and accounts are eliminated in the consolidated financial statements.

Charity Care: The Center provides care to patients, who meet certain criteria under its charity care policy, without charge or at amounts less than its established rates. The Center does not pursue collection of amounts determined to qualify as sliding fee care and they are not reported as revenue.

Northern Nevada HOPES
Notes to the Consolidated Financial Statements
June 30, 2019 and 2018

Note 1: Summary of Significant Accounting Policies (continued)

Cash and Cash Equivalents: The Center considers all liquid investments with original maturities of three months or less to be cash equivalents. Of the cash and cash equivalents balance as of June 30, 2019 and 2018, \$1,014,188 and \$1,366,297 was in excess of coverage offered by the federal depository, respectively.

Restricted cash is not considered cash and cash equivalents, and includes cash held with financial institutions for payment of construction costs and sub-allocation fees, operating expense fees, and asset management fees, of the QLICI lenders, Clearinghouse NMTC (Sub 43), LLC, Enhanced Capital New Market Development Fund 51, LLC, and AI Wainwright CommuniFund J LLC.

Assets Limited as to Use: Assets limited as to use include donor-restricted funds, which are being held for specific purposes pursuant to donor stipulations, or other contracts, or board designated funds. These funds are not covered by federal depository insurance.

Patient Accounts Receivable: Accounts receivable are recorded at gross value along with a corresponding allowance for doubtful accounts. Allowance accounts are estimated for each type of receivable based on the Center's experience in collecting receivables. Receivables are not collateralized. The Center does not refuse service to patients based on an individual's ability to pay. As of June 30, 2019 and 2018, the allowance for doubtful accounts receivables totaled \$515,287 and \$450,637, respectively.

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 and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Management believes these estimates are reasonable.

Deferred Revenue: The Center has received federal, state, and other funds in the form of grants, which are subject to review and audit by the grantor agencies. Additionally, funds received in advance of their corresponding expenditure are considered to be refundable until such expenditure is incurred. Revenue recognition is also deferred until expenditures are realized. For the years ended June 30, 2019 and 2018, deferred revenue totaled \$135,189 and \$301,989, respectively.

Inventory: Inventory consists of pharmaceutical and medical supplies and is stated at cost. Due to rapid turnover of supplies, cost approximates market value. Inventory is physically counted once a year.

Contributed Services: Contributions of services are required to be recognized if the services create or enhance assets. As of June 30, 2019 and 2018, there were no material contributed services required to be recognized.

Vacation Pay: The Center permits its employees to accumulate vacation credit hours over their working career and to redeem such unused vacation hours in cash upon termination of employment. Vacation benefits may be accumulative to a maximum of 320 hours. Employees earn vacation hours based on length of service. Employees will not earn any additional credit hours until previously accumulated vacation benefits have been used.

Northern Nevada HOPES
Notes to the Consolidated Financial Statements
June 30, 2019 and 2018

Note 1: Summary of Significant Accounting Policies (continued)

Property, Building, and Equipment: Property, building, and equipment are carried at cost or estimated fair value at date of acquisition. The Center's policy is to capitalize all acquisitions greater than \$5,000 and with an economic useful life greater than one year. Depreciation is calculated by the straight-line method over the estimated useful lives of the assets ranging from five to thirty years. Leasehold improvements are amortized on a straight-line method over the estimated useful life of the improvement or the term of the lease, whichever is less. Construction-in-progress is recorded at cost and is capitalized upon completion. Depreciation is recorded when construction is substantially complete and the assets are placed in service.

Donations of property and equipment are reported at their fair market value at the time the contributed asset is received as an increase in unrestricted net assets. Monetary gifts that must be used to acquire property and equipment are reported as restricted support. The expiration of such restrictions is reported as an increase in unrestricted net assets when the donated asset is placed in service.

Net Assets with Donor Restrictions: Contributions, including government grants and contracts, are recorded as restricted revenue if they are received with donor stipulations that limit the use of the donated asset. At June 30, 2019 and 2018, all restricted net assets are restricted for purpose of the Hope Springs project. When the purpose restriction is accomplished, restricted assets are reclassified to net assets without donor restrictions and reported in the statement of operations and changes in net assets as net assets released from restrictions. Donor-restricted contributions whose restrictions expire during the same fiscal year are recognized as unrestricted revenue.

Derivatives and Hedging Activities: The Center recognizes all derivatives on the balance sheet at fair value. The Center held derivative financial instruments for the purpose of limiting its exposure to interest rate fluctuations through the use of interest rate swaps. Net amounts paid or received under interest rate swaps are reflected as adjustment to interest expense. Derivatives were held only for the purpose of hedging or limiting such risks, not for speculation.

As defined by the guidance in relation to derivatives, none of the instruments held by the corporation are defined as a perfect hedge as of June 30, 2019 and 2018. Accordingly, all changes in fair value are reflected on the statement of activities and changes in net assets.

Income Taxes: The Center has been recognized by the Internal Revenue Service as a non-profit corporation as described in Sec. 501(c)(3) of the Internal Revenue Code (IRC) and is exempt from federal and state income taxes on related income pursuant to Sec. 501(a) of the IRC and Nevada income taxes under Nevada Legislature NRS 82.021. The tax years of 2015 through 2018 remain open and subject to examination by the appropriate government agencies in the United States and Nevada.

The preparation of financial statements in accordance with U.S. GAAP requires the Center to report information regarding its exposure to various tax positions taken by the Center. The Center has determined whether any tax positions have met the recognition threshold and have measured the Center's exposure to those tax positions. Management believes that the Center has adequately addressed all relevant tax positions and that there are no unrecorded tax liabilities. Federal and state tax authorities generally have the right to examine and audit the previous three years of tax returns filed. Any interest or penalties assessed to the Center are recorded in operating expenses. No interest or penalties from federal or state tax authorities were recorded in the accompanying financial statements.

Northern Nevada HOPES
Notes to the Consolidated Financial Statements
June 30, 2019 and 2018

Note 1: Summary of Significant Accounting Policies (continued)

Revenue Recognition: Patient service revenue is recorded at the Center's established rates adjusted for sliding scale fee discounts, provisions for uncollectible accounts, and third-party contractual allowances to arrive at net service revenue.

Interest income is recognized when earned in accordance with the contractual terms of the loan agreements and promissory notes. Other revenue is recognized when earned.

Revenue from government grants and contracts restricted for use in specific activities is recognized in the period when expenditures have been incurred in compliance with the grantor's restrictions. Grants and contracts awarded for the acquisition of long-lived assets are reported as unrestricted non-operating revenue, in absence of donor stipulations to the contrary, during the fiscal year in which the assets are acquired. Cash received in excess of revenue recognized is recorded as deferred revenue.

Notes receivable and allowance for loan losses: The Center measures impairment on a loan by loan basis by either using fair value of collateral or the present value of expected cash flows. In management's opinion, there were no impairment losses at June 30, 2019 and 2018.

Recent Accounting Pronouncements:

In August 2016, the FASB issued ASU 2016-14, *Presentation of Financial Statements for Not-for-Profit Entities* regarding the reporting and disclosure requirements for not-for-profit organizations, effective for periods beginning after December 15, 2017. The pronouncement replaces the three classes of net assets with two new classes, requires the reporting of expenses by function and natural classification, enhances disclosures on liquidity and availability of resources, and includes several other less significant reporting enhancements. The Center has adopted this new pronouncement for the year ended June 30, 2019 and the prior year presentation is conformed except where not required.

Reclassifications: Certain prior year amounts have been reclassified to conform to the current year financial statement presentation.

Note 2: Disclosures about Fair Value of Investments

Financial Accounting Standards Board's (FASB) Accounting Standard Codification (ASC) 820, Fair Value Measurements and Disclosures, requires the fair value of financial assets and liabilities to be determined using a specific fair value hierarchy. FASB ASC 820 describes three levels of inputs that may be used to measure fair value:

Level 1 Quoted prices in active markets for identical assets;

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets;

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets.

Pursuant to FASB ASC 820, the Center's investments are classified within Level 1 of the fair value hierarchy as of June 30, 2019 and 2018.

Northern Nevada HOPES
Notes to the Consolidated Financial Statements
June 30, 2019 and 2018

Note 3: Restricted Cash

AI Wainwright fee reserve: The AI Wainwright asset management fee reserve is maintained in an interest-bearing deposit account. The reserve was funded from a portion of the proceeds from the QLICI Loans (Note 6) in the amount of 277,361. The AI Wainwright asset management fee reserve is to be used for reimbursement of the certain audit, tax, and operating requirements (Note 10) and the annual asset management fees due to AI Wainwright CommuniFund J LLC (Note 9). All interest earned on amounts deposited in the AI Wainwright fee reserve account are income to the Corporation and are retained and become a part of the AI Wainwright fee reserve account. The AI Wainwright fee reserve has been pledged to AI Wainwright CommuniFund J, LLC (the "AI Wainwright Lender") as outlined in the NMTC Fee Agreement. As of June 30, 2019 and 2018, the AI Wainwright fee reserve was \$69,672 and \$124,037, of which \$54,695 and \$54,288, respectively, is included in current assets and \$14,977 and \$69,749 is included in non-current assets on the accompanying statement of financial position.

Clearinghouse fee reserve: The Clearinghouse fee reserve is maintained in an interest-bearing deposit account. The reserve was funded from a portion of the QLICI Loans (Note 6) in the amount of \$63,000. The Clearinghouse fee reserve is to be used for to pay the administration and compliance fee for the years 2020 and 2021 due to Clearinghouse Community Development Financial Institution ("CCDFI") (Note 9). All interest earned on amounts deposited in Clearinghouse fee reserve account are income to the Corporation and are retained and become a part of the Clearinghouse fee reserve account. The Clearinghouse fee reserve has been pledged to Clearinghouse NMTC (Sub 43), LLC (the "Clearinghouse Lender") as outlined in the NMTC QALICB Fee Agreement. As of June 30, 2019 and 2018, the Clearinghouse fee reserve was \$63,000, of which \$63,000 is included in non-current assets on the accompanying statement of financial position.

Stonehenge fee reserve: The Stonehenge fee reserve account is maintained in an interest-bearing deposit account. The reserve was funded from a portion of the QLICI Loans (Note 6) in the amount of \$120,000. The Stonehenge fee reserve is to be used for reimbursement of the audit and tax fees and operating expenses due to Stonehenge Community Development, LLC ("SCD") (Note 10). All interest earned on amounts deposited in Stonehenge fee reserve account are income to the Corporation and are retained and become a part of the Stonehenge fee reserve account. The Stonehenge fee reserve has been pledged to SCD as outlined in the Fee Agreement. As of June 30, 2019 and 2018, the Stonehenge fee reserve was \$72,660, both years, of which \$15,000 is included in current assets and \$57,660 and is included in noncurrent assets on the accompanying statement of financial position.

Note 4: Notes Receivable

Stonehenge Fund I notes receivable — On June 4, 2015 the Corporation entered into a loan agreement with Stonehenge Fund I (the "Fund I Loan Agreement"). Pursuant to the Fund I Loan Agreement, the Corporation made two loans to Stonehenge Fund I in the amounts of \$3,920,000 ("Note 1a") and \$1,760,000 ("Note 1b") (collectively, the "Fund I Loans"). The Fund Loans are secured by the Stonehenge Fund I's ownership interest in Stonehenge Community Development 103, LLC and Stonehenge Community Development 104, LLC as described in the Stonehenge Fund I Pledge Agreement. Interest on the Fund I Loans accrues on the unpaid principal balances at a fixed rate of 1.4083% per annum.

Northern Nevada HOPES
Notes to the Consolidated Financial Statements
June 30, 2019 and 2018

Note 4: Notes Receivable (continued)

Payments of interest only are due and payable quarterly on the 20th day of the third month of each calendar quarter (each a "Payment Date") from September 20, 2018 through January 1, 2023 (the "Amortization Commencement Date"). Commencing on the first Payment Date following the Amortization Commencement Date, quarterly payments of principal and interest are due and payable on Note 1a and Note 1b in the amounts of \$20,535 and \$16,694, respectively. Any unpaid principal and interest is payable in full on December 31, 2055 (the "Maturity Date").

Pursuant to the Fund I Loan Agreement, Note 1b was funded on June 4, 2015, and Note 1a was funded through partial advances through June 4, 2016 in which U.S. Bank National Association ("USBNA Lender") advanced funds to the Corporation under the note payable (Note 11).

As of June 30, 2019 and 2018, the outstanding principal for Note 1a and Note 1b was \$3,920,000 and \$1,760,000, and \$3,920,000 and \$1,760,000 respectively. For the years ending June 30, 2019 and 2018, interest earned on Note 1a and Note 1b was \$55,205 and \$24,786, respectively.

Enhanced Fund IV note receivable --On June 4, 2015 the Corporation entered into a loan agreement with Enhanced Fund IV (the "Fund IV Loan Agreement"). Pursuant to the Fund IV Loan Agreement, the Corporation made a loan to Enhanced Fund IV in the amount of \$841,740 ("Note 2") (the "Fund IV Loan"). The Fund IV Loan is secured by the Enhanced Fund IV's ownership interest in Enhanced Capital New Market Development Fund XLI, LLC as described in the Enhanced Fund IV Pledge Agreement. Interest on the Fund IV Loan accrues on the unpaid principal balance at a fixed rate of 9.5032% per annum.

Payments of interest only are due and payable on each Payment Date from September 20, 2015 through the Amortization Commencement Date. Commencing on the first Payment Date following the Amortization Commencement Date, quarterly payments of principal and interest are due and payable on Note 2 in the amounts of \$20,942. Any unpaid principal and interest is payable in full on the Maturity Date. As of June 30, 2019 and 2018, the outstanding principal for Note 2 was \$841,740. For the years ended June 30, 2019 and 2018, interest earned on Note 2 was \$79,992.

Stonehenge Fund II notes receivable - On June 4, 2015 the Corporation entered into a loan agreement with Stonehenge Fund II (the "Fund II Loan Agreement"). Pursuant to the Fund II Loan Agreement, the Corporation made two loans to Stonehenge Fund II in the amounts of \$886,050 ("Note 3a") and \$533,950 ("Note 3b") (collectively, the "Fund II Loans"). The Fund II Loans are secured by the Stonehenge Fund II's ownership interest in Clearinghouse NMTC (Sub 37), LLC as described in the Stonehenge Fund II Pledge Agreement. Interest on the Fund II Loans accrues on the unpaid principal balances at a fixed rate of 1.4083% per annum.

Payments of interest only are due and payable on each Payment Date from September 20, 2018 through the Amortization Commencement Date. Commencing on the first Payment Date following the Amortization Commencement Date, quarterly payments of principal and interest are due and payable on Note 3a and Note 3b in the amounts of \$4,642 and \$5,065, respectively. Any unpaid principal and interest is payable in full on December 31, 2055 (the "Maturity Date").

Pursuant to the Fund II Loan Agreement, Note 3b was funded on June 4, 2015, and Note 3a was funded through partial advances thru June 4, 2014 in which USBNA Lender advances funds to the Corporation under the note payable (Note 11).

Northern Nevada HOPES
Notes to the Consolidated Financial Statements
June 30, 2019 and 2018

Note 4: Notes Receivable (continued)

Stonehenge Fund II notes receivable - (continued) As of June 30, 2019 and 2018, the outstanding principal for Note 3a and Note 3b was \$886,050 and \$533,950. For the year ended June 30, 2019 and 2018, interest earned on Note 3a and Note 3b was \$12,478 and \$7,520 respectively.

In connection with the Stonehenge Fund I notes receivable, Stonehenge Fund II notes receivable, and the Enhanced Fund IV note receivable, the Corporation entered into three agreements that, upon expiration of the New Markets Tax Credit compliance period in June 2022, allow the Corporation to effectively acquire Stonehenge Fund I, Stonehenge Fund II, and Enhanced Fund IV (the "Investment Funds") at a contractually stipulated price. Under the terms of those agreements, the current owners of the Investment Funds have the option to sell their interests to the Corporation for a fixed price of \$1,000 each. The Corporation must submit a written request to the current owners of the Investment Funds for the execution of the put options within 60 days of June 2022. Conversely, should that option not be exercised, the Corporation has the right to acquire those interests for fair market value, as determined by an appraisal or other valuation technique. As the options outlined above do not vest until future periods, no adjustment has been made to the accompanying financial statements to reflect the effect of these agreements.

Note 5: Concentration of Credit Risk

The Center grants credit without collateral to its patients, most of whom are local residents and are insured under third-party agreements. The mix of receivables from third-party payors and patients for clinical and pharmaceutical operations as of June 30, 2019 and 2018 is as follows:

	2019	2018
Medicaid	52%	44%
Medicare	9%	13%
Insurance and other	19%	24%
Private pay	20%	19%
	100%	100%

Note 6: Net Patient and Third Party Revenue

The Center has agreements with third-party payors that provide payments to the Center at amounts different from its established rates. A summary of the payment agreements with third-party payors follows:

Medicare:

Medical services rendered to Medicare program beneficiaries are paid under a cost-based reimbursement system. The Center is reimbursed at a tentative ("interim") rate, with final settlement determined after submission of the annual cost report and audit thereof by the fiscal intermediary.

Northern Nevada HOPES
Notes to the Consolidated Financial Statements
June 30, 2019 and 2018

Note 6: Net Patient and Third Party Revenue (continued)

Medicaid:

Medical services rendered to Medicaid beneficiaries are paid under the Prospective Payment System (PPS) using rates established by the Center's "Base Year" cost report filed under the previous cost based reimbursement system. In July 2017, the Center received notification from Medicaid that a permanent rate had been determined.

Other Agreements:

The Center has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payments to the Center under these agreements includes discounts from established rates, pre-determined fees for service, percentage of charges, and others.

Note 7: Grants, Contracts and Other Receivables

Grants and contract receivables are comprised of the following at June 30, 2019 and 2018:

	2019	2018
HRSA- Section 330 Grant	\$ 149,920	\$ 135,202
Ryan White Programs	450,811	482,770
Other	342,226	450,531
Total	<u>\$ 942,957</u>	<u>\$ 1,068,503</u>

Note 8: Property and Equipment

Property, buildings, and equipment, as of June 30, 2019 and 2018, are comprised of the following:

	2019	2018
Land and land improvements	\$ 890,460	\$ 890,460
Buildings	11,987,899	11,975,687
Leasehold improvements	396,197	109,230
Equipment and software	2,282,974	1,829,387
Construction in progress	8,402	165,709
Subtotal	<u>15,565,932</u>	<u>14,970,473</u>
Accumulated depreciation	<u>(2,507,850)</u>	<u>(1,804,653)</u>
Property and equipment, net	<u>\$ 13,058,082</u>	<u>\$ 13,165,820</u>

Depreciation expense for the year ended June 30, 2019 and 2018 is \$703,197 and \$645,630, respectively. There was \$8,402 and \$165,709 construction-in-progress for the years ending June 30, 2019 and 2018. The significant portion of construction in progress in 2018 was for a pharmacy project that was completed and placed in service in the first month of FYE 2019.

Northern Nevada HOPES
Notes to the Consolidated Financial Statements
June 30, 2019 and 2018

Note 9: Estimated Third-Party Payor Settlement

The Center has recorded an estimated receivable related to third-party settlements from Medicaid. The net amount due to the Organization as of June 30, 2019 and 2018 was \$257,169 and \$258,193 respectively.

Note 10: Accrued Payroll and Related Liabilities

The balance of accrued payroll and other expenses as of June 30, 2019 and 2018 is comprised of the following:

	2019	2018
Accrued payroll and related liabilities	\$ 447,167	\$ 360,206
Accrued paid time off	349,369	202,679
	\$ 796,536	\$ 562,885

Note 11: Long-Term Debt

For the year ended June 30, 2019, the balances, net of accumulated amortization of debt issuance costs, of long-term debts were as follows:

	2019	2018
AI Wainwright Notes		
Loan A	2,819,586	\$ 2,812,758
Loan B	332,749	307,485
Loan C1	2,734,226	3,047,323
Loan C2	820,349	480,556
Clearinghouse Loans		
Loan A	262,681	260,869
Loan B1	1,403,914	1,394,206
Loan B2	370,852	366,478
Loan C1	2,734,181	2,715,269
Loan C2	820,349	798,515
Enhanced Federal Loans		
Loan A	2,495,331	2,478,123
Loan B	131,322	130,422
Enhanced Direct Loan	1,690,026	1,678,325
Total	\$ 16,615,566	\$ 16,470,329

On the Effective Date, the Corporation entered into a loan agreement (the "Loan Agreement") with the AI Wainwright Lender, Clearinghouse Lender, Enhanced Capital New Market Development Fund 51, LLC, (the Enhanced Federal Lender"), and Enhanced Capital new market Development Fund XLI, LLC (the "Enhanced State Lender") (collectively, the "Lenders").

Northern Nevada HOPES
Notes to the Consolidated Financial Statements
June 30, 2019 and 2018

Note 11: Long-Term Debt (continued)

AI Wainwright Loans- Pursuant to the Loan Agreement, the AI Wainwright Lender made loans in the amount of \$3,220,000 ("AI Wainwright Loan A"), \$380,000 ("AI Wainwright Loan B"), \$3,122,511 ("AI Wainwright Loan C1"), and \$877,489 ("AI Wainwright Loan C2"), (collectively the "AI Wainwright Loans"). The AI Wainwright Loans are secured by substantially all of the Corporation's assets, an assignment of rents, and other items as outlined in the Loan Agreement. Interest accrues on the outstanding principal balances of the AI Wainwright Loans at a rate of 1.0159% per annum on the basis of a 360-day year. Payments of interest only are due and payable in arrears and partially in advance on the first day of each March, June, September, and December of each calendar quarter commencing September 1, 2015, and continuing through maturity.

AI Wainwright Loan A — On March 1, 2023 and continuing on the first day of each March, June, September, and December of each calendar quarter payments of principal and interest on the AI Wainwright Loan A are due and payable in the amount of \$28,742. On December 31, 2055, the maturity date, the outstanding principal on the AI Wainwright Loan A, together with all accrued and unpaid interest on the AI Wainwright Loan A is due and payable.

As of June 30, 2019 and 2018, the outstanding principal balance on the AI Wainwright Loan A was \$3,220,000. As of June 30, 2019 and 2018, interest was expensed in the amount of \$32,711, respectively.

AI Wainwright Loan B — On March 1, 2023 and continuing on the first day of each March, June, September, and December of each calendar quarter payments of principal and interest on the AI Wainwright Loan B are due and payable in the amount of \$3,392. On December 31, 2055, the maturity date, the outstanding principal on the AI Wainwright Loan B, together with all accrued and unpaid interest on the AI Wainwright Loan B is due and payable.

As of June 30, 2019 and 2018, the outstanding principal balance on the AI Wainwright Loan B was \$380,000. For the year ended June 30, 2019 and 2018, the Corporation incurred interest on AI Wainwright Loan B of \$3,860 and \$3,860, respectively.

AI Wainwright Loan C1 - On March 1, 2023 and continuing on the first day of each March, June, September, and December of each calendar quarter payments of principal and interest on the AI Wainwright Loan C1 are due and payable in the amount of \$27,871. On December 31, 2055, the maturity date, the outstanding principal on the AI Wainwright Loan C1, together with all accrued and unpaid interest on the AI Wainwright Loan C1 is due and payable.

As of June 30, 2019 and 2018, the outstanding principal balance on the AI Wainwright Loan C1 was \$3,122,511. As of June 30, 2019 and 2018, accrued interest on the AI Wainwright Loan C1 was \$0 and \$2,379. For the year ended June 30, 2019 and 2018, the Corporation incurred interest on AI Wainwright Loan C1 of \$31,721 and \$31,721, respectively.

AI Wainwright Loan C2 - On August 4, 2022, the maturity date, the outstanding principal on the AI Wainwright Loan C2, together with all accrued and unpaid interest on the AI Wainwright Loan C2 is due and payable. As of June 30, 2019 and 2018, the outstanding principal balance on the AI Wainwright Loan C2 was \$877,489. For the year ended June 30, 2019 and 2018, the Corporation incurred interest on AI Wainwright Loan C2 of \$8,914 and \$8,914, respectively.

Northern Nevada HOPES
Notes to the Consolidated Financial Statements
June 30, 2019 and 2018

Note 11: Long-Term Debt (continued)

Clearinghouse Loans: Pursuant to the Loan Agreement, Clearinghouse Lender made loans in the amount of \$300,000 ("Clearinghouse Loan A"), \$1,603,317 ("Clearinghouse Loan B1"), \$396,683 ("Clearinghouse Loan B2"), \$3,122,511 ("Clearinghouse Loan B2"), and \$877,489 ("Clearinghouse Loan C2"), (collectively the "Clearinghouse Loans"). The Clearinghouse Loans are secured by substantially all of the Corporation's assets, an assignment of rents, and other items as outlined in the Loan Agreement. Interest accrues on the outstanding principal balances of the Clearinghouse Loans at a rate of 1.0318% per annum on the basis of a 360-day year.

Payments of interest only are due and payable in arrears and partially in advance on the first day of each March, June, September, and December of each calendar quarter commencing September 1, 2015, and continuing through maturity.

Clearinghouse Loan A - On March 1, 2023 and continuing on the first day of each March, June, September, and December of each calendar quarter payments of principal and interest on the Clearinghouse Loan A are due and payable in the amount of \$2,684. On December 31, 2055, the maturity date, the outstanding principal on the Clearinghouse Loan A, together with all accrued and unpaid interest on the Clearinghouse Loan A is due and payable.

As of June 30, 2019 and 2018, the outstanding principal balance on Clearinghouse Loan A was \$300,000. For the year ended June 30, 2019 and 2018, the Corporation incurred interest on Clearinghouse Loan A of \$3,096.

Clearinghouse Loan B1 - On March 1, 2023 and continuing on the first day of each March, June, September, and December of each calendar quarter payments of principal and interest on the Clearinghouse Loan B1 are due and payable in the amount of \$14,347. On December 31, 2055, the maturity date, the outstanding principal on the Clearinghouse Loan B 1, together with all accrued and unpaid interest on the Clearinghouse Loan B1 is due and payable.

As of June 30, 2019 and 2018, the outstanding principal balance on Clearinghouse Loan B1 was 1,603,317. For the year ended June 30, 2019 and 2018, the Corporation incurred interest on Clearinghouse Loan B1 of \$16,543.

Clearinghouse Loan B2 - On August 4, 2022, the maturity date, the outstanding principal on the Clearinghouse Loan B2, together with all accrued and unpaid interest on the Clearinghouse Loan B2 is due and payable. As of June 30, 2019 and 2018, the outstanding principal balance on Clearinghouse Loan B2 was \$396,683. For the year ended June 30, 2019 and 2018, the Corporation incurred interest on Clearinghouse Loan B2 of \$4,093.

Clearinghouse Loan C1 - On March 1, 2023 and continuing on the first day of each March, June, September, and December of each calendar quarter payments of principal and interest on the Clearinghouse Loan C1 are due and payable in the amount of \$27,941. On December 31, 2055, the maturity date, the outstanding principal on the Clearinghouse Loan C1, together with all accrued and unpaid interest on the Clearinghouse Loan C1 is due and payable. As of June 30, 2019 and 2018, the outstanding principal balance on the Clearinghouse Loan C1 was \$3,122,511. For the year ended June 30, 2019 and 2018, the Corporation incurred interest on Clearinghouse Loan C1 of \$32,218.

Clearinghouse Loan C2 - On August 4, 2022, the maturity date, the outstanding principal on the Clearinghouse Loan C2, together with all accrued and unpaid interest on the Clearinghouse Loan C2 is due and payable. As of June 30, 2019 and 2018, the outstanding principal balance on Clearinghouse Loan C2 was \$877,489. For the year ended June 30, 2019 and 2018, the Corporation incurred interest on Clearinghouse Loan C2 of \$9,054.

Northern Nevada HOPES
Notes to the Consolidated Financial Statements
June 30, 2019 and 2018

Note 11: Long-Term Debt (continued)

Enhanced Federal Loans

Pursuant to the Loan Agreement, the Enhanced Federal Lender made loans in the amount of \$2,850,000 ("Enhanced Federal Loan A") and \$150,000 ("Enhanced Federal Loan B"), (collectively, the "Enhanced Federal Loans"). The Enhanced Federal Loans are secured by substantially all of the Corporation's assets, an assignment of rents, and other items as outlined in the Loan Agreement. Interest accrues on the outstanding principal balances of the Enhanced Federal Loans at a rate of 1.1168% per annum on the basis of a 360-day year.

Payments of interest only are due and payable in arrears and partially in advance on the first day of each March, June, September, and December of each calendar quarter commencing September 1, 2015, and continuing through maturity.

Enhanced Federal Loan A - On March 1, 2023 and continuing on the first day of each March, June, September, and December of each calendar quarter payments of principal and interest on the Enhanced Federal Loan A are due and payable in the amount of \$25,843. On December 31, 2055, the maturity date, the outstanding principal on the Enhanced Federal Loan A, together with all accrued and unpaid interest on the Enhanced Federal Loan A is due and payable.

As of June 30, 2019 and 2018, the outstanding principal balance on the Enhanced Federal Loan A was \$2,850,000. For the year ended June 30, 2019 and 2018, the Corporation incurred interest on Enhanced Federal Loan A of \$31,828 and \$31,828, respectively.

Enhanced Federal Loan B - On March 1, 2023 and continuing on the first day of each March, June, September, and December of each calendar quarter payments of principal and interest on the Enhanced Federal Loan A are due and payable in the amount of \$1,360. On December 31, 2055, the maturity date, the outstanding principal on the Enhanced Federal Loan B, together with all accrued and unpaid interest on the Enhanced Federal Loan B is due and payable.

As of June 30, 2019 and 2018, the outstanding principal balance on the Enhanced Federal Loan B was \$150,000. For the year ended June 30, 2019 and 2018, the Corporation incurred interest on Enhanced Federal Loan B of \$1,675 and \$1,675, respectively.

Enhanced Direct Loan

Pursuant to the Loan Agreement, the Enhanced State Lender made a loan in the amount of \$1,930,000 ("Enhanced Direct Loan") and The Enhanced Direct Loan is secured by substantially all of the Corporation's assets, an assignment of rents, and other items as outlined in the Loan Agreement. Interest accrues on the outstanding principal balances of the Enhanced State Loan at a rate of 1.0000% per annum on the basis of a 360-day year.

Payments of interest only are due and payable in arrears and partially in advance on the first day of each March, June, September, and December of each calendar quarter commencing September 1, 2015, and continuing through maturity.

Northern Nevada HOPES
Notes to the Consolidated Financial Statements
June 30, 2019 and 2018

Note 11: Long-Term Debt (continued)

On March 1, 2023 and continuing on the first day of each March, June, September, and December of each calendar quarter payments of principal and interest on the Enhanced Federal Loan A are due and payable in the amount of \$17,184. On December 31, 2055, the maturity date, the outstanding principal on the Enhanced Direct Loan, together with all accrued and unpaid interest on the Enhanced Direct Loan is due and payable.

As of June 30, 2019 and 2018, the outstanding principal balance on the Enhanced Direct Loan was \$1,930,000. For the year ended June 30, 2019 and 2018, the Corporation incurred interest on Enhanced Direct Loan of \$19,300 and \$19,300 respectively.

The AI Wainwright Loans, Clearinghouse Loans, Enhanced Federal Loans, and the Enhanced Direct Loan are intended to constitute qualified low-income community investments ("QLICIs") and, for such purpose, the Corporation must be and remain a qualified active low-income community business ("QALICB"), as such terms are defined in Section 45D of the IRC, for the entire 7-year NMTC compliance period, ending June 4, 2022.

Future annual minimum principal payments on long term debt are as follows: \$0 in 2020, 2021, \$2,151,661 in 2022, \$426,093 in 2023, \$430,532 in 2024 and 15,821,714 thereafter.

Note 12: Intercompany

Related party payable — HOPES has made operating advances to the Corporation by paying for certain costs on behalf of the Corporation related to the Property. The advances are unsecured and bear no interest. The advances are due on demand. As of June 30, 2019 and 2018, the balance due to HOPES was \$0 and \$50, which was eliminated for consolidation of the financial statements.

Developer fee payable — On the Effective Date, the Corporation entered into a development agreement (the "Development Agreement"), with HOPES. Pursuant to the Developer Agreement, the Corporation agreed to pay HOPES a total development fee of \$2,747,988, in return for services relating to the development of the Project. As of June 30, 2019 and 2018, the Developer Fee was paid in full. The capitalized portion of the developer fee, as well as the Developer Fee Payable are eliminated for consolidation of the financial statements.

Ground Lease — On June 4, 2015 (the "Effective Date" the Corporation entered into a ground lease agreement (the "Ground Lease") with HOPES, for the Property. Pursuant to the Ground Lease, HOPES pays quarterly base rent in varying amounts to the Corporation on the twenty-fifth day of each February, May, August, and November for each calendar quarter. The term of the Ground Lease is thirty years. The initial lease term began January 1, 2015 and will continue through December 31, 2045. HOPES has the option to extend the Ground Lease for an additional term of ten years. For the consolidated financial statements the lease income and expense are eliminated.

On June 4, 2015, the two (2) Corporations entered into contribution agreements with HOPES. For the year ended June 30, 2019, NNH Support made a cash contribution in the amount of \$125,000 to HOPES. Cash contributions are unrestricted net assets. Contributions received during the year ended June 30, 2019 were made for general operating purposes. For the consolidated financial statements, the contributions are eliminated in the amount of \$125,000.

Northern Nevada HOPES
Notes to the Consolidated Financial Statements
June 30, 2019 and 2018

Note 13: Commitments and Contingencies

Operating Leases:

The Center has commitments under operating lease agreements for the admin building and certain equipment expiring at various times through 2021. Total lease expense for June 30, 2019 and 2018 was \$197,514 and \$39,821, respectively. The future minimum lease payment for the succeeding years under these committed lease arrangements is approximately: \$203,203 in 2020, and \$190,262 in 2021.

Risks and Uncertainties:

Laws and regulations governing Medicare and Medicaid programs are complex and subject to interpretation. 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 wrongdoings. 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.

Litigation and Malpractice:

The Center, including officers, governing board members, employees, and contractors who are physicians or other licensed or certified health care practitioners, is covered under the Federal Tort Claims Act (FTCA) which is available to clinics funded under §330 of the Public Health Service Act. The Center has been deemed to be a federal agency for the purposes of §224 of the FTCA. The Center also has supplemental professional liability coverage for individual claims up to \$1,000,000 and aggregate annual claims up to \$3,000,000. In the opinion of management, any claims arising in the Center's normal course of business will be fully covered by the insurance coverage and will not have a material adverse effect upon the financial statements.

Retirement Plan:

The Center maintains a 401K plan covering all eligible employees. The Center matches up to 4% of the employees compensation and contributed \$339,994 and \$225,710 to the plan during the year ended June 30, 2019 and 2018, respectively.

Note 14: Subsequent Events

The Center has evaluated subsequent events through November 21, 2019, which is the date the financial statements were available to be issued. During this period, no events or transactions were identified that would require disclosure in the accompanying financial statements and disclosures.

Northern Nevada HOPES
Notes to the Consolidated Financial Statements
June 30, 2019 and 2018

Note 15: Functional Expenses

The Center provides health care services primarily to residents within its geographic area. Expenses related to providing these health care services are as follows:

	2019			
	Program services	Admin	Development	Total
Salaries and benefits	\$ 11,257,331	\$ 2,250,540	\$ 123,420	\$ 13,631,291
Professional fees	697,346	267,242	26,323	990,911
Supplies	17,382,921	90,789	-	17,473,710
Facility costs	917,919	458,629	8,546	1,385,094
Insurance	-	121,106	-	121,106
Depreciation and amortization	695,425	7,772	-	703,197
Interest	340,249	-	-	340,249
	<u>\$ 31,291,191</u>	<u>\$ 3,196,078</u>	<u>\$ 158,289</u>	<u>\$ 34,645,558</u>
	2018			
	Program services	Admin	Development	Total
Salaries and benefits	\$ 9,382,475	\$ 965,467	\$ -	\$ 10,347,942
Professional fees	1,270,815	28,209	-	1,299,024
Supplies	13,397,458	297,391	-	13,694,849
Facility costs	1,896,097	42,089	-	1,938,186
Insurance	93,220	2,070	-	95,290
Depreciation and amortization	631,610	14,020	-	645,630
Interest	333,783	7,409	-	341,192
Other	-	11,442	-	11,442
	<u>\$ 27,005,458</u>	<u>\$ 1,368,097</u>	<u>\$ -</u>	<u>\$ 28,373,555</u>

Note 16: Information Regarding Liquidity and Availability of Resources

The Center strives to maintain liquid financial assets sufficient to cover 60 days of general expenditures. The following table reflects the Organization's financial assets as of June 30, 2019:

	2019
Cash and cash equivalents	\$ 4,057,114
Investments	8,098,000
Patient accounts receivable	1,393,952
Total financial assets available to meet cash needs for general expenditures within one year	<u>13,549,066</u>

In addition to financial assets available to meet general expenditures over the next 12 months, the Center operates with a balanced budget and anticipates collecting sufficient patient service revenue to cover general expenditures not covered by grants. Refer to the statement of cash flows which identifies the sources and uses of the Center's cash and shows near positive cash generated by operations for fiscal years 2019 and 2018.

SUPPLEMENTAL INFORMATION

Independent Auditor's Report on Supplemental Information

Board of Directors
Northern Nevada HOPES
Reno, Nevada

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements of Northern Nevada HOPES as a whole. The consolidating information included in page 22 through 25 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.

CHW. LLP

Fresno, California
November 21, 2019

**Northern Nevada HOPES
Consolidating Balance Sheet
For the year ended June 30, 2019**

Assets	June 30, 2019				(Memo only)	
	HOPES	SUPPORT	QALICB	Eliminations	Total	2018 Total
Current assets						
Cash and cash equivalents	\$ 3,898,588	99,601	58,925	-	\$ 4,057,114	\$ 7,219,889
Restricted cash	-	-	69,695	-	69,695	69,288
Investments	8,098,000	-	-	-	8,098,000	5,467,000
Patient accounts receivable, net	1,393,952	-	-	-	1,393,952	1,220,620
Grants, contracts and other receivables	942,957	-	-	-	942,957	1,068,503
Estimated third-party payor settlements	257,169	-	-	-	257,169	258,193
Inventory	708,501	-	-	-	708,501	581,511
Prepaid expenses and deposits	134,344	-	3,312,091	(3,312,091)	134,344	183,619
Total current assets	<u>15,433,511</u>	<u>99,601</u>	<u>3,440,711</u>	<u>(3,312,091)</u>	<u>15,661,732</u>	<u>16,068,623</u>
Restricted cash, net of current	-	-	135,637	-	135,637	190,409
Notes receivable- state leverage loans	-	7,941,740	-	-	7,941,740	7,941,740
Property and equipment, net	970,466	-	14,835,604	(2,747,988)	13,058,082	13,165,820
Total assets	<u>\$ 16,403,977</u>	<u>8,041,341</u>	<u>18,411,952</u>	<u>(6,060,079)</u>	<u>\$ 36,797,191</u>	<u>\$ 37,366,592</u>
Liabilities and net assets						
Current liabilities						
Current portion of long-term debt	\$ -	-	-	-	\$ -	\$ -
Accounts payable and accrued expenses	4,347,200	-	33,125	(3,312,091)	1,068,234	792,874
Accrued payroll and other related liabilities	796,536	-	-	-	796,536	562,885
Deferred revenue	135,189	-	-	-	135,189	301,989
Total current liabilities	<u>5,278,925</u>	<u>-</u>	<u>33,125</u>	<u>(3,312,091)</u>	<u>1,999,960</u>	<u>1,657,749</u>
Long-term debt, net of current portion	-	-	16,615,566	-	16,615,566	16,470,329
Total liabilities	<u>5,278,925</u>	<u>-</u>	<u>16,648,691</u>	<u>(3,312,091)</u>	<u>18,615,525</u>	<u>18,128,078</u>
Net assets						
Without donor restriction	10,811,526	8,041,341	1,763,261	(2,747,988)	17,868,140	19,238,514
With donor restriction	313,526	-	-	-	313,526	-
Total net assets	<u>11,125,052</u>	<u>8,041,341</u>	<u>1,763,261</u>	<u>(2,747,988)</u>	<u>18,181,666</u>	<u>19,238,514</u>
Total liabilities and net assets	<u>\$ 16,403,977</u>	<u>8,041,341</u>	<u>18,411,952</u>	<u>(6,060,079)</u>	<u>\$ 36,797,191</u>	<u>\$ 37,366,592</u>

Northern Nevada HOPES
Consolidating Statement of Operations and Changes in Net Assets
For the year ended June 30, 2019

Changes in unrestricted net assets	June 30, 2019				(Memo only)	
	HOPES	SUPPORT	QALICB	Eliminations	Total	2018 Total
Revenue and other support						
Patient and third party revenue, net	\$ 23,519,799	-	-	-	\$ 23,519,799	24,829,689
Grant revenue	8,214,088	-	-	-	8,214,088	7,110,275
In-kind and contribution revenue	1,140,217	-	-	-	1,140,217	185,803
Interest income and other revenues	210,272	179,981	1,296,312	(1,296,312)	390,253	252,913
Net assets released from restriction	10,827	-	-	-	10,827	-
Total unrestricted revenue and other support	33,095,203	179,981	1,296,312	(1,296,312)	33,275,184	32,378,680
Expenses						
Salaries and benefits	13,632,291	-	-	-	13,632,291	10,347,942
Professional fees	901,759	12,500	163,677	-	1,077,936	1,299,024
Pharmaceuticals and supplies	16,138,982	-	-	-	16,138,982	13,694,849
Client assistance and fees	1,102,394	-	-	-	1,102,394	892,975
Facilities	2,701,186	50	5,492	(1,296,312)	1,410,416	920,684
Depreciation and amortization	138,001	-	565,196	-	703,197	645,630
Insurance	121,106	-	-	-	121,106	95,290
Interest	-	-	340,249	-	340,249	341,192
Travel and conferences	116,720	-	-	-	116,720	124,527
Other	2,267	-	-	-	2,267	11,442
Total expenses	34,854,706	12,550	1,074,614	(1,296,312)	34,645,558	28,373,555
Change in unrestricted net assets	(1,759,503)	167,431	221,698	-	(1,370,374)	4,005,125
Change in temporarily restricted net assets	313,526	-	-	-	313,526	-
Increase (decrease) in net assets	(1,445,977)	167,431	221,698	-	(1,056,848)	4,005,125
Net assets, beginning of year	12,416,031	7,998,910	1,571,563	(2,747,988)	19,238,514	15,233,389
Contributions to related party	155,000	(125,000)	(30,000)	-	-	-
Net assets, end of year	\$ 11,125,054	8,041,341	1,763,261	(2,747,988)	\$ 18,181,666	19,238,514

SINGLE AUDIT REPORTS

**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**

Independent Auditor's Report

Board of Directors
Northern Nevada HOPES
Reno, Nevada

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 Northern Nevada HOPES, which comprises the balance sheets as of June 30, 2019 and 2018, and the related statements of operations and changes in net assets, and the cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated November 21, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Northern Nevada HOPES'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 financial statements, but not for the purpose of expressing an opinion on the effectiveness of Northern Nevada HOPES internal control. Accordingly, we do not express an opinion on the effectiveness of Northern Nevada HOPES 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 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 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, we did not identify any deficiencies in internal control that we consider to be material weaknesses or significant deficiency. However material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Northern Nevada HOPES 's financial statements are free of 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal controls and compliance and the results of what 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.

CAW, LLP

Fresno, California
November 21,
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

Board of Directors
Northern Nevada HOPES
Reno, Nevada

Report on Compliance for Each Major Federal Program

We have audited Northern Nevada HOPES'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 Northern Nevada HOPES's major federal programs for the year ended June 30, 2019. Northern Nevada HOPES '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

Northern Nevada HOPES' s management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Northern Nevada HOPES'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 OMB Uniform Guidance. Those standards and 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 Northern Nevada HOPES'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 Northern Nevada HOPES's compliance.

Opinion on Each Major Federal Programs

In our opinion, Northern Nevada HOPES complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2019.

Report on Internal Control over Compliance

Management of Northern Nevada HOPES 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 Northern Nevada HOPES internal control over compliance with the types of requirements that could have a direct and a material effect on each major federal program to determine the 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 in accordance 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 Northern Nevada HOPES' 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 preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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.

CAW, LLP

Fresno, California
November 21, 2019

Northern Nevada HOPES
Schedule of Expenditures of Federal Awards
For the year ended June 30, 2019

	CFDA Number	Passthrough ID	6.30.19
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES, PUBLIC HEALTH SERVICES</u>			
Direct Programs:			
Community Health Center Cluster	93.224*		\$ 1,969,592
Ryan White Part C	93.918		\$ 621,490
Ryan White PART D	93.153		\$ 428,630
		Subtotal	\$ 3,019,711
Passed Through:			
Nevada Department of Health:			
Ryan White Part B HIV Care Formula	93.917	Various	\$ 2,621,116
Substance Abuse Prevention and Treatment	93.959	Various	\$ 194,810
Substance Abuse and Mental Health Services - CCBHC	93.958	HD 16868	\$ 100,024
CDC- Colorectal Cancer Control Program	93.800	HD 16544	\$ 61,004
CDC - HIV Prevention	93.940	HD 16350	\$ 18,529
CDC - STD Prevention	93.977	HD 16352	\$ 9,161
Opioid STR Grant HHS/SAMHSA - Opioid State Targeted Response	93.788	HD 16526	\$ 85,116
Opioids STR Grant HHS/SAMHSA - Project ECHO	93.788	UNR-18-49	\$ 46,709
CDC - Heart Disease and Stroke Prevention Program	93.426	HD 16754	\$ 102,478
CDC - Heart Disease and Stroke Prevention Program - BP	93.757	HD 16650	\$ 5,713
CDC Adult Viral Hepatitis Prevention and Control	93.270	HD 16915	\$ 37,861
CDC - Women's Health Connection	93.898	HD 16507	\$ 71,106
Office of Adolescent Health (OAH) - TPP	93.297	n/a	\$ 113,468
HHS Family Planning Services - Title X	93.217	n/a	\$ 11,957
		Subtotal	\$ 3,479,051
 U.S. DEPARTMENT OF HOUSING AND DEVELOPMENT			
Passed Through:			
Nevada Department of Health:			
HOPWA	14.241	HD 16924	\$ 317,039
Total Federal Assistance			\$ 6,815,802

* Denotes major program

See accompanying Notes to the Schedule of Expenditures of Federal Awards

Northern Nevada HOPES
Notes to Schedule of Expenditures of Federal Awards
For the year ended June 30, 2019

NOTE A: BASIS FOR PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) under programs of the federal government for the year ended June 30, 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 for the Center.

NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. The Center used the federal de minimis rate.

**Northern Nevada HOPES
Schedule of Findings and Questioned Costs
For the year ended June 30, 2019**

I. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued Unmodified

Internal Control over financial reporting:
Material weakness identified? _____ Yes No

Significant deficiency(ies) identified that are
not considered to be material weaknesses? ___ Yes None Reported

Noncompliance material to financial
statements noted? _____ Yes No

Federal Awards

Internal control over major programs:
Material weakness identified? _____ Yes No

Significant deficiency(ies) identified that are
not considered to be material weaknesses? _____ Yes 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 2 CFR 200.516(a)? _____ Yes No

Major Programs

CFDA Number

Consolidated Health Centers, Section 330 93.224

Dollar threshold used to distinguish
Types A and B programs \$ 750,000

Auditee qualified as low-risk auditee? __X__ Yes _____ No

**Northern Nevada HOPES
Schedule of Findings and Questioned Costs
For the year ended June 30, 2019**

II. Current Year Audit Findings and Questioned Costs

Financial Statement Findings: No matters are reportable.

Federal Award Findings And Questioned Costs: No matters are reportable.

III. Prior Year Audit Findings and Questioned Costs:

None