# Neighborhood Health Services Corporation

(Debtor-In-Possession)

Financial Statements

June 30, 2019

NISIVOCCIA
ASSURANCE · TAX · ADVISORY

**Neighborhood Health Services Corporation**
**(Debtor-in-Possession)**
**Table of Contents**
**June 30, 2019**

NISIVOCCIA
ASSURANCE · TAX · ADVISORY

200 Valley Road, Suite 300
Mt. Arlington, NJ 07856
973.298.8500

11 Lawrence Road
Newton, NJ 07860
973.383.6699

nisivoccia.com

Independent Member
BKR International

# Independent Auditors' Report

To the Board of Trustees of
Neighborhood Health Services Corporation
Plainfield, NJ 07063

## Report on the Financial Statements

We have audited the accompanying financial statements of Neighborhood Health Services Corporation (a nonprofit organization) (the "Center"), which comprise the statement of financial position as of June 30, 2019, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

### *Management's Responsibility for the Financial Statements*

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

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Neighborhood Health Services Corporation as of June 30, 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Emphasis-of-matter Regarding Going Concern***

The accompanying financial statements have been prepared assuming that the Center will continue as a going concern. As described in Note 2, on January 7, 2015, the Center filed a voluntary petition for reorganization under Chapter 11 of the Federal Bankruptcy Code and was authorized to continue managing and operating the business as a debtor in possession subject to the control and supervision of the Bankruptcy Court. As shown in the financial statements, during the fiscal year ended June 30, 2019, the Center earned net income of $901,030, however the Center still has a deficit of $6,263,419 in its net assets at June 30, 2019. As of that date, the Center has a working capital deficiency. In addition, the Center has suffered recurring losses from operations in recent years. These factors, among others, as disclosed in Notes 16 and 17, raise substantial doubt about the Center's ability to continue as a going concern. Management's evaluation of the events and conditions and management's plans regarding these matters are also described in Note 17. These financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to that matter.

***Other Matters***

***Report on Supplementary and Other Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary schedules of expenditures of federal and state 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* (Uniform Guidance) and New Jersey State Circular 15-08-OMB, *Single Audit Policy for Recipients of Federal Grants, State Grants, and State Aid*, and the schedules of disbursements by grant are presented for purposes of additional analysis and are not a required part of the financial statements.

The schedules of expenditures of federal and state awards are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such 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.

To the Board of Trustees of
Neighborhood Health Services Corporation

***Report on Supplementary and Other Information (Cont'd)***

In our opinion, the schedules of expenditures of federal and state awards are fairly stated, in all material respects, in relation to the financial statements as a whole.

The accompanying supplementary schedule of disbursements by grant is the responsibility of management. Such information, except for that portion marked "unaudited", was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information except for the portion marked "unaudited" 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, that information is fairly stated in all material respects in relation to the financial statements as a whole. The information marked "unaudited" has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated August 28, 2020, on our consideration of the Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 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.

Nisivoccia LLP

Mt. Arlington, New Jersey
August 28, 2020

**Neighborhood Health Services Corporation**
**(Debtor-in-Possession)**
**Statement of Financial Position**
**June 30, 2019**

| ASSETS | | 2019 |
|---|---|---|
| Current assets: | | |
| Cash and cash equivalents | $ | 704,245 |
| Patient services receivable, net | | 521,131 |
| Estimated third-party payor settlements | | 531,498 |
| Grants and contracts receivable | | 394,729 |
| Other receivables | | 729,990 |
| Other assets | | 159,065 |
| Total current assets | | 3,040,658 |
| Property and equipment, net of accumulated depreciation | | 5,352,496 |
| Total assets | $ | 8,393,154 |
| LIABILITIES AND NET DEFICIT | | |
| Liabilities not subject to compromise | | |
| Current liabilities: | | |
| Accounts payable and accrued expenses | $ | 1,406,710 |
| Federal and state payroll tax liabilities | | 527,138 |
| Accrued compensation | | 351,639 |
| Loan payable | | 593,552 |
| Refundable advances | | 155,813 |
| Total current liabilities | | 3,034,852 |
| Liabilities subject to compromise (note #4) | | 11,621,721 |
| Total liabilities | | 14,656,573 |
| Net deficit: | | |
| Without donor restrictions | | (6,263,419) |
| Total net deficit | | (6,263,419) |
| Total liabilities and net deficit | $ | 8,393,154 |

See Notes to Financial Statements

**Neighborhood Health Services Corporation**
**(Debtor-in-Possession)**
**Statement of Activities**
**Year Ended June 30, 2019**

| | | Without Donor Restrictions |
|---|---|---|
| Revenue and support: | | |
| Patient service revenue, net of charitable and contractual allowances | $ | 4,381,298 |
| Provision for bad debts | | (37,167) |
| Net patient service revenue less provision for bad debts | | 4,344,131 |
| DHHS and other grant revenue | | 4,580,761 |
| 340B and other contract revenue | | 539,018 |
| Donated vaccines and medical supplies | | 469,985 |
| Other revenue | | 763,771 |
| Total revenue and support | | 10,697,666 |
| Operating expenses: | | |
| Program services | | 5,574,588 |
| General and administrative | | 4,097,779 |
| Total operating expenses | | 9,672,367 |
| Change in net deficit before reorganization items | | 1,025,299 |
| Reorganization items, net (note #5) | | (124,269) |
| Change in net assets | | 901,030 |
| Net deficit, beginning of year | | (7,164,449) |
| Net deficit, end of year | $ | (6,263,419) |

**Neighborhood Health Services Corporation**
**(Debtor-in-Possession)**
**Statement of Functional Expenses**
**Year Ended June 30, 2019**

| | Program Services | General and Administrative | Total |
|---|---|---|---|
| Salaries and wages | $ 3,002,955 | $ 3,031,650 | $ 6,034,605 |
| Employee benefits and taxes | 387,438 | 277,293 | 664,731 |
| Consultants and contractual services | 229,202 | 60,441 | 289,643 |
| Professional fees | 285,747 | 75,352 | 361,099 |
| Pharmacy, laboratory and radiology | 68,981 | 18,191 | 87,172 |
| Staff training | 15,899 | 4,193 | 20,092 |
| Consumable supplies | 180,864 | 47,695 | 228,559 |
| Donated vaccines | 371,911 | 98,074 | 469,985 |
| Occupancy | 507,681 | 133,876 | 641,557 |
| Insurance | 149,625 | 39,456 | 189,081 |
| Repairs and maintenance | 38,133 | 10,056 | 48,189 |
| Equipment rental | 248 | | 248 |
| Telephone | 48,376 | 12,756 | 61,132 |
| Travel, conferences and meetings | 43,253 | 11,406 | 54,659 |
| Dues and subscriptions | 5,859 | 1,544 | 7,403 |
| Printing, publications and postage | 3,969 | 1,046 | 5,015 |
| Software costs | 20,336 | 5,084 | 25,420 |
| Interest expense | 96,372 | 25,413 | 121,785 |
| Other | 60,676 | 16,002 | 76,678 |
| Total | 5,517,525 | 3,869,528 | 9,387,053 |
| Depreciation | 57,063 | 228,251 | 285,314 |
| Total operating expenses | 5,574,588 | 4,097,779 | 9,672,367 |
| Reorganization costs | 124,269 | | 124,269 |
| Total expenses | $ 5,698,857 | $ 4,097,779 | $ 9,796,636 |

See Notes to Financial Statements

**Neighborhood Health Services Corporation**
**(Debtor-in-Possession)**
**Statement of Cash Flows**
**Year Ended June 30, 2019**

| | |
|---|---|
| Cash flows from operating activities: | |
| Change in net deficit | $ 901,030 |
| Adjustments to reconcile change in net deficit to net cash provided by operating activities: | |
| Provision for bad debt expense | 37,167 |
| Depreciation | 285,314 |
| Changes in operating assets and liabilities | |
| Patient services receivable | (177,570) |
| Estimated third-party payor settlements | (73,222) |
| Grants and contracts receivable | (209,353) |
| Other receivables | (729,990) |
| Prepaid expenses | 10,638 |
| Assets limited as to use | (11,565) |
| Accounts payable and accrued expenses | 461,211 |
| Federal and state payroll tax liabilities | (257,199) |
| Accrued compensation | 141,047 |
| Refundable advances | (32,030) |
| Net cash provided by operating activities before reorganization costs | 345,478 |
| Cash effect of reorganization items | (144,370) |
| Net cash provided by operating activities | 201,108 |
| Cash flows from investing activities: | |
| Purchase of software | (135,000) |
| Net cash used in investing activities | (135,000) |
| Cash flows from financing activities: | |
| Proceeds from issuance of loan | 630,000 |
| Principal payments on loan | (36,448) |
| Net cash provided by financing activities | 593,552 |
| Net increase in cash and cash equivalents | 659,660 |
| Cash and cash equivalents, beginning of year | 44,585 |
| Cash and cash equivalents, end of year | $ 704,245 |
| Supplemental disclosures of noncash transactions: | |
| In-kind donation of vaccines and medical supplies | $ 469,985 |
| In-kind donation of rent | $ 212,560 |

See Notes to Financial Statements

1. Nature of Activities

Neighborhood Health Services Corporation (the "Center") is a not-for-profit corporation which operates primary healthcare centers in Plainfield and Elizabeth, New Jersey. The Center provides a broad range of health services to a largely medically underserved population.

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

Approximately 56% of the funding for the Center comes from government grants and public assistance for the year ended June 30, 2019. This funding is dependent upon monies from federal and state programs. Accordingly, there is no guarantee that such funding will continue. In addition, net asset balances are dependent upon approval of disbursed monies by the granting agencies.

2. Summary of Significant Accounting Policies

Reorganization under Bankruptcy Proceedings

On January 7, 2015 the Center filed petitions under Chapter 11 of the Federal Bankruptcy laws. This generally delays payment of liabilities incurred prior to filing those petitions while the Center develops a plan of reorganization that is satisfactory to its creditors and allows it to continue as a going concern. The carrying amounts of assets and liabilities are unaffected by the proceedings, but liabilities are presented according to the status of the creditors.

Under Chapter 11, certain claims against the Center in existence before the filing of the petitions for relief under the Federal Bankruptcy Laws are stayed while the Debtor continues business operations as Debtor-in-possession. These claims are reflected in the June 30, 2019 statement of financial position as liabilities subject to compromise. Additional claims (liabilities subject to compromise) may arise after the filing date resulting from rejection of executory contracts, including leases, and from the determination by the court (or agreed to by parties in interest) of allowed claims for contingencies and other disputed amounts. Claims secured against the Center's assets (secured claims) also are stayed, although the holders of such claims have the right to move the court for relief from the stay. Secured claims are secured primarily by liens on the Debtor's property and equipment. The Center received approval from the Bankruptcy Court to pay or otherwise honor certain of its prepetition obligations, including employee wages.

The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with U.S. generally accepted accounting principles. Significant accounting policies are described below:

Basis of Presentation

In August 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU"), *Not-for-Profit Entities (Topic 958), Presentation of Financial Statements of Not-for-Profit Entities*. ASU 2016-14 requires significant changes to the financial reporting model of organizations who follow the not-for-profit reporting model. The changes include reducing the classes of net assets from three classes to two – net assets with donor restrictions and net assets without donor restrictions. The ASU also requires changes in the way certain information is aggregated and reported by the Center, including required disclosures about liquidity and availability of resources and increased disclosures on functional expenses. The new standard is effective for the Center's year ending June 30, 2019 and thereafter and must be applied on a retrospective basis. The Center adopted the ASU effective July 1, 2018. Adoption of the ASU did not result in any reclassifications or restatements to net assets or changes in net assets. *Accounting for Contributions Received and Made*, requires that unconditional promises to give be recorded as receivables and revenue and requires the Center to distinguish between contributions received for each net asset category in accordance with donor-imposed restrictions. Accordingly, net assets of the Center and changes therein are classified and reported as follows:

Net assets without donor restrictions are comprised of net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The governing board has designated, from net assets without donor restrictions, net assets for to be held for specific purposes.

Net assets with donor restrictions represent amounts with donor or certain grantor imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

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 amounts of assets and liabilities, revenue and expenses and changes therein, and disclosures of contingent assets and liabilities and accompanying notes. It is reasonably possible that the Center's estimates may change in the near term.

Revenue and Support Recognition

Contributions are recognized as revenue and receivables when they are received or unconditionally pledged. Unconditional promises to give due in the next year are recorded at their net realizable value.

Unconditional promises to give due in subsequent years are reported at the present value of their net realizable value, using risk-adjusted interest rates applicable to the years in which the promises are to be received.

The Center reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restriction. However, if the donor restriction is met during the accounting period in which the gift was received, the gifts are reported as contributions without donor restrictions in the statement of activities. Restricted gains and investment income whose restrictions are satisfied in the same accounting period are reported as unrestricted income.

The Center accounts for contract and grant revenue, which are exchange transactions, in the statement of activities to the extent that expenses have been incurred for the purpose specified by the grantor during the period. In applying this concept, the legal and contractual requirements of each individual program are used as guidance. All amounts not expended in accordance with the grant or contract are recorded as a liability to the grantor as the Center does not maintain any equity in the grant or contract. Additionally, funds received in advance of their proper usage are accounted for as deferred revenue in the statement of financial position.

The Center recognizes patient service revenue associated with services provided to patients who have third-party payer coverage on the basis of contractual rates for the services rendered. For uninsured patients that do not qualify for charity care, the Center recognizes revenue on the basis of its standard rates for services provided (or on the basis of discounted rates, if negotiated or provided by policy). On the basis of historical experience, a significant portion of the Center's uninsured patients will be unable or unwilling to pay for the services provided. Thus, the Center records a significant provision for bad debts related to uninsured patients in the period the services are provided.

<u>Meaningful Use Incentive</u>

The American Recovery and Reinvestment Act of 2009 ("ARRA") amended the Social Security Act to establish one-time incentive payments under the Medicare and Medicaid programs for certain professionals that: (1) meaningfully use certified Electronic Health Record ("EHR") technology, (2) use the certified EHR technology for electronic exchange of health information to improve quality of healthcare, and (3) use the certified EHR technology to submit clinical and quality measures. The provisions of ARRA, together with certain of its other provisions, are referred to as the Health Information Technology for Clinical and Economic Health ("HITECH") Act. The Center's providers have met the criteria and has earned funding from the Medicaid incentive program.

<u>Income Tax Status</u>

The Center is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and classified by the Internal Revenue Service as other than a private foundation.

The Center is also exempt under Title 15 of the State of New Jersey *Corporations and Organizations Not-for-Profit Act.* Accordingly, no provision for federal or state income tax has been presented in the accompanying financial statements.

The Center follows the provisions of FASB ASC, *Income Taxes*. The standard prescribes a minimum recognition threshold and measurement methodology that a tax position taken or expected to be taken in a tax return is required to meet before being recognized in the financial statements. It also provides guidance for derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition as they relate to those tax positions.

The Center believes that it has appropriate support for the positions taken on its tax returns and accordingly, has not recorded any tax provision for the year ended June 30, 2019. However, the Center is subject to audit by tax authorities including a review of its nonprofit status which management believes would be upheld upon examination. As such, certain tax positions could be challenged and the amounts ultimately paid, if any, upon resolution of the issues raised by the taxing authorities, may differ materially from the amounts filed.

As required by law, the Center files informational returns with both the United States federal and state of New Jersey jurisdictions on an annual basis - Form 990 with the Internal Revenue Service, and Form CRI-300R with the State. The Center is subject to examination by these authorities within certain statutorily defined periods from the latest filing date for federal and for New Jersey State.

Cash and Cash Equivalents

Cash and cash equivalents include all cash balances and highly liquid investments with an original maturity of three months or less when acquired.

Patient Services Receivable, Grants and Contracts Receivable, and Other Receivables and Allowances for Doubtful Accounts

Patient services receivable are reduced primarily by contractual allowances and, where applicable, an allowance for doubtful accounts. Contractual allowances are determined based on pre-established rates with third party payers.

In evaluating the collectability of patient services receivable, the Center analyzes its past history and identifies trends for each of its major payer sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management regularly reviews data about these major payer sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts.

For receivables associated with services provided to patients who have third-party coverage, the Center analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts, if necessary (for example, for expected uncollectible deductibles or for payers who are known to be having financial difficulties that make the realization of amounts due unlikely). The contractual and allowance for doubtful accounts at June 30, 2019 amounted to $725,134.

For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Center records a provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

Grants, contract services, and other receivables are stated at the amount management expects to collect from balances outstanding. Management closely monitors outstanding balances throughout the year, and writes off to expense all balances that are considered uncollectible. Management considers all grants and contract services receivable to be fully collectible; accordingly, no allowance for doubtful accounts is considered necessary.

Property and Equipment

Purchased property and equipment additions exceeding $1,000 and groups of items that in aggregate exceed $2,000 are recorded at their original cost. Donations of property and equipment are recorded as contributions at their estimated fair value on the date of the gift. Such donations are reported as contributions without donor restrictions unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted contributions. Absent donor restrictions regarding how long those donated assets must be maintained, the Center reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Center reclassifies net assets with donor restrictions to net assets without donor restrictions at that time.

Property and equipment acquired with certain government contract funds are recorded as an expense pursuant the terms of the contract in which the government funding source retains ownership of the property. Major renewals and betterments are charged to the property accounts; maintenance and minor repairs and replacements, which do not improve or extend the lives of the respective assets, are charged to expense as incurred. Depreciation is computed over the estimated useful lives of the assets using the straight-line method.

The Center continually evaluates whether current events or circumstances warrant adjustments to the carrying value or estimated useful lives of fixed assets in accordance with the provisions of FASB ASC, *Accounting for the Impairment or Disposal of Long-Lived Assets*.

No impairment losses were recorded for the year ended June 30, 2019.

Intangible Assets

In accordance with FASB ASC, *Intangibles - Goodwill and Other – Internal-Use Software*, internal-use software costs are capitalized in the year purchased. Costs incurred during the preliminary and post implementation and operation stages are expenses as incurred. Capitalized costs are amortized on a straight-line basis over the estimated useful life.

Fair Value of Financial Instruments

In accordance with FASB ASC, *Fair Value Measurements and Disclosures*, fair value is defined as a market-based measurement, not an entity-specific measurement. The objective of a fair value measurement is to estimate the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current market conditions (that is, an exit price at the measurement date from the perspective of a market participant that holds the asset or owes the liability). A fair value measurement assumes that the transaction to sell the asset or transfer the liability either occurs in the principal market (or in its absence, the most advantageous market) for the asset or liability.

The following is a description of the valuation methodologies used for assets and liabilities measured at fair value. There have been no changes in the methodologies used at June 30, 2019.

*Cash and cash equivalents, patient services receivable, grants and contracts receivable, other receivables, other current assets, liabilities not subject to compromise*: the carrying amounts approximate fair value due to the short term maturity of these instruments.

*Liabilities subject to compromise*: are carried at management's best estimate of at the amount of allowed claims, that is, at the amount allowed by the court, even though such liabilities may not be paid in full.

*Loan Payable*: Long-term debt is carried at amortized cost since management believes the Center can obtain similar loans at similar terms. Accordingly, management of the Center has determined that cost approximates fair value.

Functional Allocation of Expenses

The cost of providing various services and other activities has been summarized on a functional basis in the statement of functional expenses. Accordingly, certain costs have been charged to program services, general and administrative or fundraising based on a combination of specific identification and allocation by management.

The expenses that are allocated include insurance, occupancy, equipment rental, repairs and maintenance, and depreciation, which are allocated on a square footage basis, as well as salaries and wages, employee benefits and taxes, consultants and contractual services, professional fees, pharmacy, laboratory and radiology, staff training, consumable supplies, donated vaccines, telephone, travel, conferences and meetings, printing, publications and postage, software costs, which are allocated on the basis of estimates of time and effort. Dues and subscriptions, interest expense, and other expenses are allocated on a project basis.

Credit Risk and Concentrations

Financial instruments, which potentially subject the Center to concentrations of credit risk, consist primarily of cash and cash equivalents, patient services receivable, other receivables, and grants and contracts receivable. At times, amounts invested with financial institutions may exceed federally insured limits.

The Center monitors its financial institutions and the concentration of credit risk on a regular basis and does not anticipate nonperformance by the financial institutions. Management believes it is not exposed to any significant credit risks.

Donated Services

The Board of Trustees makes significant contributions of time relative to general management and operations of the Center. Additionally, a substantial number of unpaid volunteers have made significant contributions of their time to the programs sponsored by the Center. The value of this contributed time is not reflected in the financial statements since it does not meet the requirements for recognition under U.S. generally accepted accounting principles.

In-Kind Contributions

In-kind contributions are reflected as contributions at their fair value at the date of donation and are reported as support without donor restrictions unless explicit donor stipulations specify how the donated assets must be used. The Center recognizes the fair value of contributed services received if such services create or enhance nonfinancial assets or require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not contributed. For the year ended June 30, 2019, in-kind contributions consisted primarily of donated vaccines, medicines, and medical supplies in the amount of $469,985 and donated rent in the amount of $212,560.

Interest Earned on Federal Funds

Interest earned on Federal funds is recorded as a payable to the United States Public Health Services ("PHS") in compliance with the regulations of the United States Office of Management and Budget.

New Pronouncements

In February 2016, the FASB issued ASU 2016-02, "*Leases"*. ASU 2016-02 requires all lessees to record a lease liability at lease inception, with a corresponding right of use asset, except for short-term leases. The new standard requires lessors to account for leases using an approach that is substantially equivalent to existing guidance. ASU 2016-02 is effective for fiscal years beginning after December 15, 2021. The amendments in this update should be applied retrospectively. The Center is currently evaluating the impact of this standard.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. The updated standard will be effective for the Center for its year ending June 30, 2020. The Center is currently evaluating the impact of this standard.

In June 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standard Update (ASU) 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This ASU will impact all organizations that receive or make contributions of cash or other assets. ASU 2018-08 includes specific criteria to consider when determining whether a contract or agreement should be accounted for as a contribution or as an exchange transaction. It also provides a framework for determining whether a contribution is conditional or unconditional. ASU 2018-08 is effective for fiscal years beginning after December 15, 2018, with early adoption permitted. The Center is currently evaluating the impact of the adoption of this guidance on the Center's financial statements.

3. Liquidity and Availability

The Center receives significant contributions from governmental agencies under specified grant agreements which fall within the Center's general operating expenses to fund their programs and mission. In addition, the Center receives support without donor restrictions including income generated from their programs such as Medical, Dental, and various other programs; such support has historically represented a majority of annual program funding needs, with the remainder funded by grants and contributions.

The Center considers patient service revenue generated from its programs, grant revenue, and contributions without donor restrictions for use in current programs which are ongoing, major, and central to its annual operations to be available to meet cash needs for general expenditures. General expenditures include those related to the Center's programs as well as administrative and general expenses expected to be paid in the subsequent year. Annual operations are defined as activities occurring during the Center's fiscal year.

The Center manages its cash available to meet general expenditures utilizing the following guiding principles:

- Operating within a prudent range of financial soundness and stability and
- Maintaining adequate liquid assets.

As of June 30, 2019, the following table shows the total financial assets held by the Center and the amounts of those financial assets that could readily be made available within one year of the statement of financial position date to meet general expenditures:

| | | |
|---|---|---|
| Financial assets at year end: | | |
| Cash and cash equivalents | $ | 704,245 |
| Patient services receivable, net | | 521,131 |
| Estimated third-party payor settlements | | 531,498 |
| Grants and contracts receivable | | 394,729 |
| Total financial assets | | 2,151,603 |
| Financial assets available to meet general expenditures within one year | $ | 2,151,603 |

In addition to these available financial assets, a significant portion of the Center's annual expenditures will be funded by current year operating revenues including patient service revenue and grant and contract revenue.

Due to the Center's bankruptcy filing and subsequent reorganization, all financial assets are additionally managed by the courts ensuring that financial assets are expended prudently and in accordance with the reorganization plan.

4. Liabilities Subject to Compromise

Liabilities subject to compromise consists primarily of prepetition liabilities which were incurred prior to filing the petition for bankruptcy, unsecured claims, and unsecured claims. The carrying amounts of these liabilities are not adjusted, unless disallowed by the Bankruptcy Court, even though they may be settled for less.

Liabilities subject to compromise at June 30, 2019 include the following items:

| | | |
|---|---|---|
| Accounts payable and accrued expenses | $ | 2,781,812 |
| Secured tax claims (a) | | 5,185,423 |
| Priority tax claims | | 1,113,781 |
| Unsecured tax claims | | 83,781 |
| Pension liability (including accrued interest) | | 634,833 |
| Estimated third party payor settlements | | 1,822,091 |
| | $ | 11,621,721 |

(a) The secured debt in this case should be considered, due to various factors, subject to compromise.

5. Reorganization Items, Net

Reorganization items included in the financial statements at June 30, 2019 consist of the following:

| | | |
|---|---|---|
| Professional fees | $ | 23,953 |
| U.S. trustee fees | | 100,316 |
| | $ | 124,269 |

Professional fees and U.S. Trustee fees included in reorganization items primarily relate to post-petition legal, accounting, financial advisors and trustee fees incurred in connection with the bankruptcy proceedings.

6. Patient Services Receivable

At June 30, 2019, patient services receivable, net, consisted of the following:

| | | |
|---|---|---|
| Medicaid | $ | 80,968 |
| Medicare (including third-party payor settlements) | | 588,022 |
| Other third-party | | 20,520 |
| Self-pay | | 152,441 |
| Medicaid Managed Care and wraparound programs | | 724,491 |
| New Jersey uncompensated care | | 211,321 |
| | | 1,777,763 |
| Less: contractual and allowance for doubtful accounts | | (725,134) |
| | $ | 1,052,629 |

The Center updates its sliding fee schedule for uninsured or charity care annually in accordance to federal and state guidelines. The Center does maintain a material allowance for doubtful accounts from third-party payors. The Center did not have significant write-offs from third-party payors.

7. Patient Services Revenue

At June 30, 2019, the mix of patient services revenue, net is as follows:

| | |
|---|---|
| Medicaid | 11% |
| Medicare | 3% |
| Other third-party | 15% |
| Self-pay | 12% |
| Medicaid Managed Care and wraparound programs | 33% |
| New Jersey uncompensated care | 26% |
| | 100% |

Medicaid and Medicare revenue is reimbursed to the Center at the net reimbursement rates determined by each program. Reimbursement rates are subject to revisions under the provision of reimbursement regulations. Adjustments for such revisions are recognized in the fiscal year incurred.

8. Property and Equipment

At June 30, 2019, property and equipment consisted of the following:

| | Useful Lives (Years) | |
|---|---|---|
| Building and improvements | 5-39 | $ 5,534,674 |
| Furniture and fixtures | 5-7 | 24,495 |
| Equipment | 5-7 | 2,836,131 |
| | | 8,395,300 |
| Less: accumulated depreciation | | (3,750,804) |
| | | 4,644,496 |
| Land | | 708,000 |
| | | $ 5,352,496 |

In the event the DHHS grants are terminated, the DHHS reserves the right to transfer all property and equipment purchased with grant funds to Public Health Services or third parties.

Depreciation expense for the year ended June 30, 2019 amounted to $285,314.

.

9. Intangible Assets

During the year ended June 30, 2019, software in the amount of $135,000 was purchased by the Center and is included in Other Assets on the statement of financial position. The software was purchased during the final month of fiscal year 2019 and should be placed into service in fiscal year 2020.

Future amortization of software costs subsequent to June 30, 2019 are as follows:

| Years ending June 30, | | |
|---|---|---|
| 2020 | $ | 22,500 |
| 2021 | | 45,000 |
| 2022 | | 45,000 |
| 2023 | | 22,500 |
| | $ | 135,000 |

10. Loan Payable

In January 2019, the Center entered into a promissory note with the New Jersey Health Care Facilities Financing Authority in the amount of $630,000. The loan is secured with the Plainfield, NJ property as collateral on the loan. Interest on this loan will be computed at a rate, adjusted monthly, equal to the New Jersey Cash Management Fund interest rate as of the first day of the month preceding the date of calculation, plus 2.0%, and applied to the outstanding balance of the loan, plus any interest accrued to that point, for the number of days the loan is outstanding, 3.75% at June 30, 2019. The principal of this loan outstanding from time to time shall be paid in sixty (60) consecutive monthly installments on the first day of each calendar month, commencing March 1, 2019, in an amount not less than one sixtieth (1/60th) of the principal amount of the loan outstanding from time to time. The outstanding balance of the loan payable amounted to $593,552 at June 30, 2019.

Future anticipated principal loan payments subsequent to June 30, 2019 are as follows:

| Years ending June 30, | | |
|---|---|---|
| 2020 | $ | 129,385 |
| 2021 | | 129,385 |
| 2022 | | 129,385 |
| 2023 | | 129,385 |
| 2024 | | 76,012 |
| | $ | 593,552 |

11. Operating Leases

The Center entered into a sub-lease agreement for space commencing February 12, 2012 with the City of Elizabeth, whereby, the Center would sub-lease certain premises that are leased by the City of Elizabeth for the purposes of operating a medical center and providing medical services to the residents of the City of Elizabeth. The term of the sub-lease was for 25 years, ending on February 11, 2037, with an aggregate annual base rent of $1. The arrangement is subject to various conditions and covenants that are listed in the agreement and requires the Center to pay for its share of taxes and maintenance.

Rent expense, including donated rent, for the year ended June 30, 2019 amounted to $212,560.

12. Pension Fund Liability

Prior to the year ended June 30, 2012, the Center contributed to a union-sponsored multiemployer benefit plan in accordance with negotiated labor contracts. The plan covered all of the Center's union employees, On February 28, 2011, the Center incurred a completed withdrawal from the plan. On October 2, 2012, in connection with this withdrawal, the plan assessed a withdrawal liability to the Center in the principal amount of $524,882 based on the plan unfunded vested liability as of December 31, 2010. The Center entered into a payment arrangement with the union that provides for 240 monthly payments of $4,125, including principal and interest.

The Center subsequently failed to make the required payments during the specified time and defaulted on the agreement. The plan assessed additional liabilities in the amount of $26,127 to Center in connection with contributions owed by the Center prior to its withdrawal from the plan.

During 2014, the Center entered in a settlement agreement with the plan which provides for payment of the withdrawal liability in 240 monthly payments of $4,125 starting November 1, 2014 and payment for the additional liabilities associated with the missed contributions in 9 monthly payments of $3,010 starting November 15, 2014.

At June 30, 2016, the outstanding balance due under the terms of the settlement agreement, including principal and accrued interest, amounted to $601,249.

In November 2012, the Center settled its dispute with another union-sponsored multiemployer benefit plan as to monthly payments that are owed for the fiscal year ending June 30, 2012. Under the agreement, the Center was required to pay the United Service Workers Union Local 74 Welfare Fund a total of $217,456 over a then-month period starting October 2012. The settlement did not include certain disputed claims amounting to $73,029 which were referred for arbitration. In January 2013, these disputed claims were settled through arbitration.

Under the terms of the consent arbitration award, the Center is obligated to pay the amount of $38,778 plus interest due when finally paid. The outstanding balance due under the terms of the settlement agreement, including principal and accrued interest, amounted to $188,233 of which $33,584 is still outstanding at June 30, 2019 and is included in Liabilities Subject to Compromise on the statement of financial position.

13. Retirement Plans

The Center sponsors a defined contribution pension plan as defined under Section 401(k) of the Internal Revenue Code covering substantially all employees meeting certain eligibility requirements. The Center can elect to make discretionary matching and non-elective contributions. For the year ended June 30, 2019, there were no contributions made by the Center.

14. Split-Interest Agreement

The Center is the beneficiary under a trust administered by another nonprofit entity. The assets of the trust are not included in the statement of financial position of the Center since the trust is not legally enforceable and the trust assets can be distributed to others at any time at the discretion of the donor or his successors at the time of the donor's death. There was no income received from the trust during 2019.

15. In-Kind Contributions

The Center received donated vaccines and medical supplies valued at the amount of $469,985 from the State of New Jersey, Department of Health, Division of Epidemiology, Environmental and Occupational Health in connection with its Vaccines for Children Program for the year ended June 30, 2019. In connection with leasing arrangements further described in Note 11, the Center recorded the fair value of the leased premises which was approximately $212,560 as donated rent for the year ended June 30, 2019. The amounts are included in grants and contracts and related expense in the statement of activities as of June 30, 2019.

16. Commitments and Contingencies

The Center is exposed to various risks of loss related to torts; thefts of, damage to, and destruction of assets; injuries to employees; and natural disasters. The Center maintains commercial insurance to protect itself from such risks.

The Center maintains its medical malpractice coverage under the Federal Tort Claims Act (“FTCA”). FTCA provides malpractice coverage to eligible PHS-supported programs and applies to the Center and its employees while providing services within the scope of employment included under grant-related activities. The Attorney General, through the U.S. Department of Justice, has the responsibility for the defense of the individual and/or grantee for malpractice cases approved for FTCA coverage.

The Center entered into contractual relationships with certain governmental funding sources. The governmental agencies may request return of funds as a result of noncompliance by the Center, as well as additional funds for the use of facilities. The accompanying financial statements make no provision for the possible disallowance or refund.

The Center has contracted with the State of New Jersey, Department of Health to perform certain healthcare services and receives Medicaid and Medicare revenue from the State of New Jersey and the Federal government. Reimbursements received under these contracts and payments under Medicaid and Medicare are subject to audit by federal and state governments and the Center may be required to refund amounts in question.

As a result of an audit from the Medicaid Fraud Division of the Office of the State Comptroller, the Center was notified that it had not fully complied with certain requirements applicable to its Medicaid program.

Consequently, some claims reimbursed during the audit period of July 1, 2010 through June 30, 2012 maybe subject to recapture. At June 30, 2014, the Center had recorded an estimated net settlement liability related to the Medicaid audit of $2,123,915. On January 21, 2016, the final compliance audit report assessed a total overpayment of approximately $1,822,091; all of which has been accrued for as of June 30, 2019 and classified as liabilities subject to compromise. The adjustment to reflect the final assessment resulted in a decrease of $301,824 to the estimated third-party payor settlement liability and corresponding increase in net patient services revenue during the fiscal year ended June 30, 2015. In March 2016, the Center notified the Office of Inspector General of its intent to appeal the findings and assessments, but due to the bankruptcy filing, this appeal is stayed.

The Center is a defendant in a number of legal actions which date before the bankruptcy filing and with potential liability of approximately $786,241; all of which has been accrued for as of June 30, 2019 and classified as liabilities subject to compromise. In the opinion of management, the ultimate liabilities, if any, resulting from such lawsuits and claims, will not materially affect the financial position of the Center, as such liabilities will be discharged when the Center emerges from bankruptcy.

No provision has been made in the accompanying financial statements for potential liabilities in excess of the amounts accrued from those legal actions.

As of June 30, 2019, the Service has assessed unpaid payroll taxes amounting to approximately $5,419,308, including interest and penalties of $1,904,620. As of June 30, 2019, the State of New York, New Jersey, and Pennsylvania have also assessed unpaid payroll taxes amounting to approximately $963,677, including interest and penalties of $180,522. Included in these amounts are post-petition payroll taxes, including penalties and interest, of $527,138. The Center has recorded a liability for the assessed unpaid payroll taxes and related interest and penalties at June 30, 2019.

17. Going Concern Matters and Management Plans

The accompanying financial statements have been prepared assuming the Center will continue as a going concern, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. During the fiscal year ended June 30, 2019, the Center earned net income of $901,030, and while this resulted in a decrease in the overall deficiency in net assets, the Center still has a deficit of $6,263,419 in its net assets at June 30, 2019.

As disclosed in Note 16 to the financial statements, the Center has accumulated significant liabilities due to failure to pay certain payroll tax liabilities and associated penalties and interest at June 30, 2019. Based on these factors and those noted in the paragraph above, the Center's cash flows may not be sufficient to satisfy its current liabilities on a timely basis.

The Center's ability to meet its current obligations as they become due is dependent on improving operations and restructuring its obligations. Management has evaluated its current operations and is developing a reorganization plan to focus on operational efficiency to foster financial stability such as; cost reduction, increased revenue, improved financial controls and accounting processes along with other initiatives to improve working capital. Management of the Center is also actively pursuing ways to reduce its liabilities.

As part of the cost reduction initiatives, the Center implemented a staff reduction plan; processed a temporary 10 percent salary reduction within the management workforce. The Executive team has maintained the 15 percent salary reduction. To increase revenue, the Center is re-evaluating hours of operation to determine, peak volume regarding days of the week and hours of the day. Additionally, an assessment of the performance of peak volume will determine the reallocation of staff to capture the volume, developing a concentrated patient outreach effort to ensure provider schedules are filled, and that patient demand is achieved. An outside, court appointed accounting firm, approved by the bankruptcy court, reviews the Center's plans for restructuring.

On February 28, 2017, the Center's Board for the Debtor held a meeting and approved accepting an offer for the sale of the Center's real property to a potential purchasers, with a leaseback to the Center to continue operations. On January 31, 2018, the Center filed a Motion to approve the sale with the bankruptcy court. The Center anticipated finalizing the contract by April 10, 2018; however, at the eleventh hour, the buyer significantly reduced the price of the sale. The board of directors determined that the new price was not in the best interest of the Center and rejected the sale. By letter docketed April 23, 2018, the Center withdrew the sale motion.

In April 2018, the Center diligently began a new search campaign for funding by way of: real estate sale, real estate/ partnership sale or traditional investor financing. Non-Disclosure Agreements were executed with eight interested parties and a comprehensive exchange of the Center's financial documents ensued. Initially there was some interest; however, by the time the Trustee took over in mid-October 2018, or shortly thereafter, all serious interested had subsided. In late-February 2019, the Trustee entered into a contract with AuctionAdvisors to market the property.

However, as of August 2020, the Center has not sold the property and no longer has an interest in selling the property as the Center has since emerged from bankruptcy.

Despite emerging from bankruptcy during the fiscal year ending June 30, 2020, management has concluded that the combination of the aforementioned uncertainties raises substantial doubt about the Center's ability to continue as a going concern within one year from issuance of these financial statements. The financial statements do not include any adjustment relating to the recoverability of assets and classification of liabilities that might be necessary should the Center be unable to continue as a going concern.

18. Subsequent Events

Management has reviewed subsequent events and transactions that occurred after June 30, 2019 through the date of the independent auditors' report and the date the financial statements were available to be issued, August 28, 2020. The financial statements include all events or transactions, including estimates, required to be recognized in accordance with generally accepted accounting principles. Management has determined that there are no nonrecognized subsequent events that require additional disclosure. However, the Coronavirus Disease 2019 ("COVID-19") global pandemic has created stock market volatility, economic uncertainties and other uncertainties that may have an impact on the Center's operations, financial statements and cash flows in the future. The extent of the impact of COVID-19 on the Center's operational and financial performance will depend on certain developments, including the duration and extent of the pandemic and mitigation measures implemented in the United States and New Jersey, impact on our donors, employees and suppliers all of which are uncertain and cannot be predicted. While the disruption is currently expected to be temporary, there is considerable uncertainty around the duration and impact. Therefore, the related financial impact and duration cannot be reasonably estimated at this time.

The Center emerged from bankruptcy on December 5, 2019 with new financial leadership and is working towards more financial stability and reduction of liabilities going forward.

On January 24, 2012, with the approval of its Board of Directors, NJPCA filed a lawsuit in federal district court in New Jersey against the state of New Jersey (the "State") on behalf of its member centers, captioned New Jersey Primary Care Association, Inc. v. State of New Jersey Dept. of Human Services et al., Case No. 3:13-cv-00413 (D. N.J.) (the "Lawsuit"). Upon settlement of the lawsuit, the State agreed to make a payment of $20 million to resolve all unpaid Medicaid claims with dates of service prior to January 1, 2019. During fiscal year 2020, the Center shall receive its share of the Pre-2019 Settlement Payment of which $729,990 is included in other revenue as a recovery of bad debt in the statement of activities for the year ended June 30, 2019 and other receivables in the statement of financial position at June 30, 2019.

SUPPLEMENTARY INFORMATION

**Neighborhood Health Services Corporation**
**(Debtor-in-Possession)**
**Schedule of Expenditures of Federal Awards**
**For the Year Ended June 30, 2019**

| Federal Grantor / Pass-Through Grantor / Program or Cluster Title | CFDA Number | Pass-Through Entity ID# | Federal Expenditures | Amounts Provided to Subrecipients |
|---|---|---|---|---|
| U.S. Department of Health and Human Services | | | | |
| Health Center Program Cluster: | | | | |
| Consolidated Health Centers (Community Health Centers, Migrant Health Health Care for the Homeless, and Public Housing Primary Care Centers) | 93.224 | N/A | $ 1,078,722 | |
| Affordable Care Act (ACA) Grants for New and Expanded Services under the Health Center Program | 93.527 | N/A | 2,718,467 | |
| Total Health Center Program Cluster | | | 3,797,189 | |
| Grants To Provide Outpatient Early Intervention Services with Respect To HIV Disease (Ryan White HIV /AIDS Program Part C) | 93.918 | N/A | 255,677 | |
| Passed through City of Newark Department of Health and Community Wellness: | | | | |
| HIV Emergency Relief Project Grants (Ryan White HIV/AIDS Program Part A) | 93.914 | Ryan White - Part A (EMA, TGA) 2018 | 173,272 | |
| HIV Emergency Relief Project Grants (Ryan White HIV/AIDS Program Part A) | 93.914 | Ryan White - Part A (EMA, TGA) 2019 | 54,743 | |
| | | | 228,015 | |
| Total U.S. Department of Health and Human Services | | | 4,280,881 | |
| U.S. Department of Housing and Development | | | | |
| Passed through Union County Department of Health And Human Services: | | | | |
| Community Development Block Grant | 14.218 | | 7,500 | |
| Total U.S. Department of Housing and Development | | | 7,500 | |
| Total expenditures of federal awards | | | $ 4,288,381 | |

See Notes to the Schedules of Expenditures of Federal and State Awards

**Neighborhood Health Services Corporation**
**(Debtor-in-Possession)**
**Schedule of Expenditures of State Awards**
**For the Year Ended June 30, 2019**

| State Grantor / Pass-Through Grantor / Program Title | Grantor's Number | Grant Period | Award Amount | State Expenditures |
|---|---|---|---|---|
| State of New Jersey Department of Health | | | | |
| Division of HIV, STD and TB Services | | | | |
| HIV Counseling, Testing and Referral Services | AIDS19CTN017 | 07/01/18-06/30/19 | $ 271,000 | $ 271,000 |
| Division of Family Health Services | | | | |
| Preventive and Primary Care Program | DFHS19FQH17L | 07/01/18-06/30/19 | 1,143,860 | 1,143,860 |
| Heart and Stroke Prevention Program | DFHS18H&S004 | 07/01/17-06/30/19 | 54,000 | 21,380 |
| Total expenditures of state awards | | | $ 1,468,860 | $ 1,436,240 |

See Notes to the Schedules of Expenditures of Federal and State Awards

1. Basis of Presentation

The accompanying schedules of expenditures of federal and state awards presents the activity of all federal and state financial assistance programs of Neighborhood Health Services Corporation The information in these schedules are 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* (Uniform Guidance) and the New Jersey State Circular 15-08-OMB, *Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid.* Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements. All federal and state financial assistance received directly from federal and state agencies is included on the schedules of federal and state awards. Because the schedules present only a selected portion of the operations of Neighborhood Health Services Corporation, it's not intended to and does not present the financial position, changes in net assets, or cash flows of Neighborhood Health Services Corporation.

2. Summary of Significant Accounting Principles

The accompanying schedules of expenditures of federal and state awards are presented using the accrual basis of accounting which is described in Note 2 to the financial statements. 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. Pass-through entity identifying numbers have been presented where available.

3. Indirect Cost Rate

Neighborhood Health Services Corporation has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

4. Relationship to Federal and State Financial Reports

The regulations and guidelines governing the preparation of federal and state financial reports vary by state agency and among programs administered by the same agency. Accordingly, the amounts reported in the state financials do not necessarily agree with the amounts in the accompanying schedules of expenditures of federal and state awards, which is prepared on the accrual basis explained in Note 2.

5. State Financial Assistance

The Center contracted with the State of New Jersey Department of Health (the "Department") to provide health and medical services to the uninsured population under the Uncompensated Primary Care Program. The Department reimburses the Center for uninsured visits at a fixed amount per visit regardless of the actual costs incurred. During the year ended June 30, 2019, the total amount earned and recognized as revenue under the Letter of Agreement DFHS19FQH17L was $1,143,860.

6. Single Audit – Type A/Type B Program Threshold

Dollar threshold used to distinguish between Type A and Type B programs is $750,000. Single audit expenditure threshold requirement is $750,000.

NISIVOCCIA
ASSURANCE · TAX · ADVISORY

200 Valley Road, Suite 300
Mt. Arlington, NJ 07856
973.298.8500

11 Lawrence Road
Newton, NJ 07860
973.383.6699

nisivoccia.com

Independent Member
BKR International

Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Board of Trustees of
Neighborhood Health Services Corporation
Plainfield, NJ 07063

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 Neighborhood Health Services Corporation (a nonprofit organization), which comprise the statement of financial position as of June 30, 2019, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated August 28, 2020. Our report on the financial statements includes an emphasis-of-matter paragraph describing conditions, discussed in Note 17 to the financial statements, that raised substantial doubt about the Center's ability to continue as a going concern.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Neighborhood Health Services Corporation'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 financial statements, but not for the purpose of expressing an opinion on the effectiveness of Neighborhood Health Services Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Center's internal control.

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified.

However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses. (2019-001, 2019-002, 2019-003, 2019-004, 2019-005)

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Neighborhood Health Services Corporation's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2019-001, 2019-002, 2019-006, 2019-007.

**Neighborhood Health Services Corporation's Response to Findings**

Neighborhood Health Services Corporation's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Neighborhood Health Services Corporation's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

**Purpose of this Report**

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

Nisivoccia LLP

Mt. Arlington, New Jersey
August 28, 2020

NISIVOCCIA
ASSURANCE · TAX · ADVISORY

200 Valley Road, Suite 300
Mt. Arlington, NJ 07856
973.298.8500

11 Lawrence Road
Newton, NJ 07860
973.383.6699

nisivoccia.com

Independent Member
BKR International

Independent Auditors' Report on Compliance For Each Major Federal and State Program and on Internal Control over Compliance Required by the Uniform Guidance and New Jersey State Circular 15-08-OMB

To the Board of Trustees of
Neighborhood Health Services Corporation
Plainfield, NJ 07063

**Report on Compliance for Each Major Federal and State Program**

We have audited Neighborhood Health Services Corporation's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* and New Jersey State Circular 15-08-OMB *State Grant Compliance Supplement* that could have a direct and material effect on each of Neighborhood Health Services Corporation's major federal and state programs for the year ended June 30, 2019. Neighborhood Health Services Corporation's major federal and state programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

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

***Auditors' Responsibility***

Our responsibility is to express an opinion on compliance for each of Neighborhood Health Services Corporation's major federal and state 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) and New Jersey State Circular 15-08-OMB, *Single Audit Policy for Recipients of Federal Grants, State Grants, and State Aid*. Those standards, the Uniform Guidance and New Jersey State Circular 15-08-OMB 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 and state program occurred. An audit includes examining, on a test basis, evidence about Neighborhood Health Services Corporation'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 and state program. However, our audit does not provide a legal determination of Neighborhood Health Services Corporation's compliance.

***Basis for Qualified Opinion on Health Center Program Cluster***

As described in the accompanying schedule of findings and questioned costs, Neighborhood Health Services Corporation did not comply with requirements regarding its major program, Health Center Program cluster (CFDA 93.224, CFDA 93.527) as described in findings numbers 2019-006 for allowable costs/cost principles and cash management. Compliance with such requirements is necessary, in our opinion, for Neighborhood Health Services Corporation to comply with the requirements applicable to that program.

***Qualified Opinion on Health Center Cluster Program***

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, Neighborhood Health Services Corporation complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on Health Center cluster for the year ended June 30, 2019.

***Other Matters***

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with Uniform Guidance and New Jersey State Circular 15-08-OMB and which are described in the accompanying schedule of findings and questioned costs as items 2019-001, 2019-002, and 2019-006. Our opinion on the major state program is not modified with respect to these matters.

Neighborhood Health Services Corporation's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Neighborhood Health Services Corporation's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

**Report on Internal Control Over Compliance**

Management of Neighborhood Health Services Corporation 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 Neighborhood Health Services Corporation's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal and state 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 and state program and to test and report on internal control over compliance in accordance with Uniform Guidance and New Jersey State Circular 15-08-OMB, 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 Neighborhood Health Services Corporation's internal control over compliance.

To the Board of Trustees of
Neighborhood Health Services Corporation

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2019-001, 2019-002, 2019-003, 2019-004, 2019-005, and 2019-007 to be material weaknesses.

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 or state 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.

Neighborhood Health Services Corporation's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Neighborhood Health Services Corporation's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of Uniform Guidance and New Jersey State Circular 15-08-OMB. Accordingly, this report is not suitable for any other purpose.

Nisivoccia LLP

Mt. Arlington, New Jersey
August 28, 2020

Summary of Auditors' Results:

- An unmodified report was issued on Neighborhood Health Services Corporation's financial statements. The report on the financial statements includes an emphasis-of-matter paragraph describing conditions, discussed in Note 17 to the financial statements, that raised substantial doubt about the Center's ability to continue as a going concern.

- The audit disclosed material weaknesses relating to the audit of Neighborhood Health Services Corporation.

- The audit disclosed noncompliance which is material in relation to the financial statements of Neighborhood Health Services Corporation.

- The audit disclosed material weaknesses relating to the audit of Neighborhood Health Services Corporation's major programs.

- A qualified report was issued on Neighborhood Health Services Corporation's compliance for its major program cluster.

- Audit findings that are required to be reported under section 200.516 of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and the New Jersey State Circular 15-08-OMB, *Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid* are reported in this schedule.

- The program tested as a major federal and state programs were:

| Major Federal Program | CFDA # | Expenditures |
|---|---|---|
| U.S. Department of Health and Human Services: | | |
| Health Center Program Cluster | 93.224, 93.527 | $3,797,189 |

| Major State Program | Contract # | Expenditures |
|---|---|---|
| State of New Jersey Department of Health | | |
| Preventive and Primary Care Program | DFHS19FQH17L | $1,143,860 |

- A risk-based approach to the determination of major programs was utilized for the audit for the year ended June 30, 2019. Major programs were determined as all "Type A" programs with total program expended funds of $750,000 or more and those "Type B" programs necessary to meet the percentage of coverage rule as required in the Circular.

- Neighborhood Health Services Corporation qualified as a "high -risk" auditee under the provisions of section 200.520 of the Uniform Guidance.

Findings Relating to the Financial Statements which are Required to be Reported in Accordance with *Government Auditing Standards*:

2019-001 - Delinquent Payroll Taxes

Material Noncompliance, Material Weakness

*Context*: The Center failed to pay all federal and state payroll taxes timely and incurred significant fines and penalties during recent fiscal years.

*Condition*: As of June 30, 2019, there were approximately $6,910,123, including penalties and interest, payable to the federal and state government due the Center's failure to remit certain payroll and income tax withholdings in a timely manner in previous periods. A similar finding is included in the 2018 single audit report as item 2018-001.

It was observed during fiscal year 2019, the Center was able to reduce the total amount of payroll tax liabilities owed, however, they still have a large amount outstanding including $527,138 in post-petition payroll tax liabilities.

*Criteria*: Federal and state laws require deposits and payments be made for federal and state income taxes withheld, and both the employer and employee social security taxes and Medicare taxes. Employers are responsible to ensure that payroll and income tax withholdings are timely deposited in accordance with the applicable federal and state deposit/payment schedules (26 C.F.R. Part 31).

*Cause*: Budgetary and cash flow issues resulting from recurring operating losses, and the State's delayed Medicaid wrap around payments.

*Effect*: The Center failed to comply with federal and state laws and accumulated delinquent payroll taxes which resulted in significant fines and penalties. Total outstanding federal and state payroll tax liabilities, including interest and penalties, amounted to approximately $6,910,123 for the year ended June 30, 2019.

*Recommendation*: Management should pay its payroll tax liabilities to the applicable authorities. Furthermore, management should closely monitor its cash flows, perform routine reviews of the Center's operating budget, and make necessary adjustments to address significant variances.

*Views of Responsible Officials and Planned Corrective Action*: Neighborhood Health Services Corporation agrees with this finding and is adjusting its reorganization plan and operations to ensure that payroll taxes are routinely deposited timely. During the year ended June 30, 2019, the Center continued to make payments on their outstanding post-petition tax liabilities and their related penalties and interest and made timely payments on a majority of taxes incurred during the year.

The Center continues to attempt to relieve their tax liabilities and related penalties and interest as best they can with the funds available for expenditure, however, certain payments that the Center intends to be applied against the principal tax balances owed are at times applied to the penalties and interest by the IRS at their discretion.

2019-002 - Financial Performance – Going Concern

Noncompliance, Material Weakness

*Context*: As shown in the audited financial statements, the Center earned $901,030 in net income during the year, however, maintained an overall deficit of $6,263,419 in its net assets during the year ended June 30, 2019. As of that date, the Center had a working capital deficiency. In addition, the Center has incurred operating losses in recent years. The Center entered bankruptcy in 2015 and has implemented several initiatives identified in its restructured plan.

*Condition:* The Center is facing several conditions that pose a threat to its ability to continue as a going concern. A similar finding is included in the 2018 single audit report as item 2018-002.

*Criteria:* The Center must comply with the financial management system requirements contained in 45 CFR Part 74.21. Furthermore, pursuant to 45 CFR Part 74.14, HRSA may impose additional requirements if a grant recipient has a history of poor performance, is not financially stable, does not have a financial management system that meets federal standards, has not conformed to the terms and conditions of a previous award, or is not otherwise responsible.

*Cause:* Inadequate oversight to properly manage income and expenses.

*Effect:* The Center failed to provide oversight for financial viability and regulatory compliance.

*Recommendation:* We recommend that the Center implement plans to pay off its liabilities, closely monitor its operating costs and strengthen accounting for the use of funds. We also recommend that the Center monitor its operating revenues to ensure adequate working capital.

*Views of Responsible Officials and Planned Corrective Action:* Neighborhood Health Services Corporation agrees with this finding and has worked diligently to emerge from bankruptcy. Without consistent fiscal leadership over the past three years, it has been challenging to provide adequate and effective oversight of operating costs and revenues. While in bankruptcy and during this reporting period, the Center restructured the organization, reduced expenses and identified strategies to increase revenue. The Trustee has obtained a $750,000 line of credit from the New Jersey Health Care Facilities Financing Authority to provide a cushion for working capital. The Center has emerged from bankruptcy during fiscal year 2020 and is continuing to work on its overall financial health.

2019-003 - Patient Services Billings, Collections and Receivable

Material weakness

*Context*: This finding is a repeat from the prior year's audit. In response to the prior finding, procedures to correct the deficiency are being implemented. The Center has put in place measures to consistently conduct chart audits by establishing a review committee that meets on a regular basis to ensure that the chart documentation is complete. In addition, in-service training and refresher sessions are facilitated for the providers/billing staff to ensure that the proper codes are being used.

*Condition:* Due to deficiencies in the monitoring of the billing and collections procedures during the period under audit, it was noted during our procedures that the patient services receivable and corresponding allowances accounts had not been properly reconciled as of the audit date and required significant year-end adjustments to adjust these accounts at their net realizable value. A similar finding is included in the 2018 single audit report as item 2018-003.

*Criteria:* Internal controls should be in place that provide reasonable assurance that patient service billings, collections, adjustments to patient service revenue and receivable are monitored periodically and adequately supported and are only posted to the general ledger after proper management review and approval (Section 330(k)(3)(F) and (G) of the PHS Act). Furthermore, sound billing and collections procedures are essential to operation of the Center as it allows for maximum revenue from the public and third party payers.

*Cause:* Procedures are in place for periodic monitoring of patient services billings, collections and supervisory review and approval of related reports. However, these procedures were not periodically monitored during the period under audit.

*Effect:* Failure to monitor billings and collections procedures can result in loss of revenue, jeopardize the Center's ability to maintain or improve its financial condition and achieve its mission.

*Recommendation:* Steps should be taken to strengthen the existing operating procedures related to billing and collections and ensure that billing and collection issues are addressed within a reasonable period of time after services are provided.

*Views of Responsible Officials and Planned Corrective Actions:* Neighborhood Health Services Corporation agrees with this finding and is implementing procedures to address this finding by adhering to the procedures for periodic monitoring of patient services billings and collections. The Center has purchased new software to utilize as their electronic health record keeping system which went into service in January 2020. Management hopes by utilizing this new software, their deficiencies related to billings and collections will be improved.

2019-004 – Design and operation of internal controls over financial reporting process and lack of segregation of duties

Material weakness

*Context*: The COSO framework for effective internal control over financial reporting indicates that, management should select and develop control activities that mitigate risks to the achievement of financial reporting objectives.

The COSO framework for effective internal control over financial reporting indicates that, to the extent possible, no single individual should have control over two or more phases of a transaction or operation. Assigning different people the responsibilities of authorizing transactions, recording transactions, is intended to reduce the opportunities for any one person to be in a position to both perpetrate and conceal errors or fraud in the normal course of his or her duties.

*Condition:* Management has not identified risks related to the financial reporting and as a result has failed to monitor controls over financial reporting to prevent or detect and correct material misstatements of the financial statements. Specifically, several material adjusting journal entries posted to the Center's accounting records during the audit period did not have adequate supporting documentation. A similar finding is included in the 2018 single audit report as item 2018-004.

*Criteria:* Management should select and develop control activities that mitigate risks to the achievement of financial reporting objectives; which include ensuring that monitoring procedures to assess the quality of the Center's system of internal control are effectively implemented. Although the Center has established procedures related to the review and recording of transactions, we found that these procedures and controls were not being followed.

*Cause*: Management has not performed either ongoing or separate evaluations of the Center's internal control. As a result, the company's controls may not be designed or operating effectively to provide reasonable assurance that controls will prevent or detect and correct material misstatements in a timely manner.

*Effect:* We identified material misstatements that were not prevented or detected and corrected by management prior to our audit. We also identified material journal entries that have inadequate supporting documentation.

*Recommendation:* We recommend that the Center strengthen its policies and procedures to ensure that reports are reviewed by an individual who possesses knowledge of GAAP and verified to be complete and accurate prior to submission to auditors and to ensure that supporting documentation that confirm that entries are properly approved, adequately supported, and reflect the underlying events and transactions are maintained.

*View of Responsible Official:* Neighborhood Health Services Corporation agrees with this finding. Without consistent fiscal leadership, it has been challenging to provide adequate, effective and timely oversight of financial reporting.

Policies and procedures have been updated and reviewed yet again during fiscal year 2019. During this 2019 reporting period, the Center was again without a Chief Financial Officer for several months. The Center's prior CFO resigned during fiscal year 2019 on October 18, 2018. The Trustee then retained an outside consulting firm to take over the finances and assist the Trustee with his analysis of the Center's financial landscape. Subsequently, a new Chief Financial Officer was hired who will be in charge of ensuring the proper controls are in place in order to ensure there is effective internal control over financial reporting at the Center.

2019-005 – <u>Recordkeeping</u>

Material weakness

*Context*: All expenses should have the proper documentation to support outgoing payments being made.

*Condition:* It was noted that invoice documentation supporting payments made for certain expenses during the year could not be located. Out of 25 cash disbursement transactions tested, 6 exceptions were noted.

*Criteria:* Management should maintain proper supporting invoice documentation for all cash disbursement transactions made.

*Cause:* Procedures are in place for proper recordkeeping of all cash disbursement transactions initiated within the Center. However, these procedures were not followed nor were they periodically monitored during the period under audit.

*Effect:* Failure to enforce and monitor recordkeeping procedures can result in the failure to be able to substantiate certain expenses which in turn could lead to the loss of revenue and jeopardize the Center's ability to maintain or improve its financial condition and achieve its mission.

*Recommendation:* Steps should be taken to strengthen the existing operating procedures related to recordkeeping to ensure that all expenses and corresponding cash disbursement transactions contain the proper supporting documentation to validate those expenses and this documentation is filed and stored properly in an accessible location.

*Views of Responsible Officials and Planned Corrective Action*: Neighborhood Health Services Corporation agrees with the finding and procedures are being implemented to remedy the condition.

<u>Findings Relating to the Financial Statements which are required to be Reported in Accordance with Section 2 CFR 200.516(a) of Uniform Guidance and New Jersey State Circular 15-08-OMB</u>:

2019-006 - <u>U.S. Department of Health and Human Services – Health Resources and Service Administration</u>
<u>Health Center Cluster - CFDA No.: 93.224, 93.527; Grant No. H80CS00645; Grant period – Year ended June 30, 2019.</u>

Material Noncompliance

*Questioned costs*: $0

*Context:* It was noted that certain documentation supporting patient claims could not be located during our audit. Intake forms, signed consent forms, and proof of service in the physical patient file, as well as photo identification and proof of insurance were missing from certain patient files. Out of 65 patient files tested, 22 exceptions were noted.

*Condition*: Due to deficiencies in the monitoring of patient services billing procedures and client chart records during the period under audit, it was noted during our procedures that various required documentation was missing from patient files. A similar finding is included in the 2018 single audit report as item 2018-007.

*Criteria*: Management should select and develop control activities that mitigate risks to patient services billing procedures and client chart records; which include ensuring that monitoring procedures to assess the quality of the Center's system of internal control are effectively implemented. Although the Center has established procedures related to the review patient services billing and client chart records, we found that these procedures and controls were not effective.

*Cause:* Procedures are in place for periodic monitoring of patient services billings and client chart records including supervisory review. However, these procedures were not periodically monitored during the period under audit.

*Effect:* Failure to monitor patient services billing procedures and client chart records can result in loss of revenue, jeopardize the Center's ability to maintain or improve its financial condition and achieve its mission.

*Recommendation:* Steps should be taken to strengthen the existing operating procedures related to patient services billings and client chart records and ensure that billing and documentation issues are addressed within a reasonable period of time after services are provided.

*Views of Responsible Officials and Planned Corrective Action*: Neighborhood Health Services Corporation agrees with the finding and procedures are being implemented to remedy the condition.

2019-007 – U.S. Department of Health and Human Services – Health Resources and Service Administration
Health Center Cluster - CFDA No.: 93.224, 93.527; Grant No. H80CS00645; Grant period – Year ended June 30, 2019.

L - Reporting

Material Noncompliance

*Questioned costs*: $0

*Context*: The deadline for submission of the Center's Single Audit reporting package for the year ended June 30, 2018 was due March 31, 2019. No extension was granted from the awarding agency. The audited financial statements were not available for issuance until April 22, 2019. Hence, the filing was not done in a timely manner. No sampling was performed.

*Condition*: Recipients who expend $750,000 or more in federal awards during a fiscal year and have met the audit requirements of the Uniform Guidance are required to submit a Data Collection Form and audited financial statements the earlier of 30 days after the audited financial statements has been issued and 9 months after year end.

*Criteria*: The Data Collection Form and audited financial statements should be filed by the required deadline.

*Cause*: The financial statement audit was not scheduled until after the Data Collection Form filing deadline.

*Effect*: Financial statement audit and financial statements were not submitted to the Federal Audit Clearinghouse by the required deadline.

*Recommendation*: The financial statement audit should be scheduled and completed with sufficient time to file the Data Collection Form by the required deadline.

*Views of Responsible Officials and Planned Corrective Action*: Neighborhood Health Services Corporation agrees with the finding and procedures are being implemented to remedy the condition.

Status of Prior Year Findings:

| | | |
|---|---|---|
| 2018-001 | During the year ended June 30, 2018, the Center failed to remit certain payroll and income tax withholdings in a timely manner. As of June 30, 2018, there were approximately $7,167,322, including interest and penalties, payable to the federal and state government. | The Center has implemented a Cash Forecasting model based upon expected receipts and expenditures. The purpose of the forecasting model is to ensure that payroll and income tax withholdings are timely deposited in accordance with applicable federal and state depository requirements.<br><br>Similarly, the Center has also updated its Cash Management policies to monitor routine cash activities and use proactive approach to address any cash shortfalls during routine review process. The center is also implemented a cash monitoring process on daily/weekly basis in conjunction with cash forecast model.<br><br>Initial Finding Year: 2015<br><br>Partially corrected on: 10/12/2016, corrections ongoing |
| 2018-002 | The Center is facing several conditions that pose a threat to its ability to continue as a going concern. | Funding from a potential sale will facilitate negotiations with creditors and distribution of funds, enabling the Center to pay off its liabilities and other obligations, thereby improving its working capital and eliminating the threat of its ability to continue as a going concern. The Center is considering a number of cost containment measures, to improve its operational performance.<br><br>These measures include ongoing monitoring through monthly budget performance report, reallocating resources to enhance efficiency across the organization, eliminate excess staffing and overlapped cost, freezing some of the current vacant positions and revising payment terms plans with post-petition vendors. At the same time, the Center is also implementing a monitoring process for provider's productivity and performance based incentive plan.<br><br>In addition the Center has implemented new policies and procedures which have been approved by HRSA and the Trustee has obtained a $750,000 line of credit from the New Jersey Health Care Facilities Financing Authority to provide a cushion for working capital and has since emerged from bankruptcy during fiscal year 2020.<br><br>Initial Finding Year: 2015 |

| | | |
|---|---|---|
| 2018-003 | Due to deficiencies in the monitoring of the billing and collections procedures during the period under audit, it was noted during our procedures that the patient services receivable and corresponding allowances accounts had not been properly reconciled as of the audit date and required significant year-end adjustments to adjust these accounts at their net realizable value. | The Center has updated its policy and procedures regarding patient billing, collections and Accounts Receivables. The updated policy & procedure will ensure that patient revenue and corresponding allowances are recorded in a timely manner in accordance with Generally Accepted Accounting Principles (GAAP). The Center is also taking measures to implement internal controls related to patient billing, receivables and productivity. Additionally, NHSC will establish a Review Committee to oversee the chart audit and compliance related to patient billing and practice management system. The outcome of the Committee progress will be reported to the Board Finance Committee and included in the monthly CFO report and provider productivity highlighted in the CMO report.<br><br>A new EHR system was implemented during FY17 for medical and dental services, however there were reconciliation issues related to the technology of the dental system unrelated to the organization. The new medical EHR system implemented continued to have reconciliation problems so there has been yet another new system implemented during fiscal year 2020 which will be overseen by new financial management.<br><br>Initial Finding Year: 2015<br><br>Partially corrected on: 10/24/17 and 4/25/17 |
| 2018-004 | Management has not identified risks related to the financial reporting and as a result has failed to monitor controls over financial reporting to prevent or detect and correct material misstatements of the financial statements. | The Center performed an assessment of internal control related to financial reporting process and implementing number of measures to ensure the completeness and accuracy of its financial reports. These measures include review of monthly financial reports, performing certain due diligence testing and evaluate the audit trail of the information to mitigate risk and ascertain overall reliability of the financial information. They have adopted and implemented new policies and procedures which have been reviewed and approved by HRSA. The Center's most current CFO resigned on October 18, 2018. The Trustee retained an outside consulting firm to take over the finances and assist the Trustee with his analysis of the Center's financial landscape in the interim until a new fulltime CFO was hired following that who will be oversee internal controls related to financial reporting.<br><br>Initial Finding Year: 2015 |

| | | |
|---|---|---|
| 2018-005 | Management has not maintained proper supporting invoice documentation for all cash disbursement transactions made due to procedures not being followed for proper recordkeeping of all cash disbursement transactions initiated within the Center. | The Center has implemented a new accounting software during FY19, which requires that documentation (i.e., receipts, invoices, purchase orders, etc.) be attached and uploaded for all expenses prior to disbursement. Policies and procedures reflecting this new process and software are in the process of being developed.<br><br>Initial Finding Year: 2018 |
| 2018-006 | During the year ended June 30, 2018, the Center failed to remit certain payroll and income tax withholdings in a timely manner. As of June 30, 2018, there were approximately $7,167,322, including interest and penalties, payable to the federal and state government. | The Center has implemented a Cash Forecasting model based upon expected receipts and expenditures. The purpose of the forecasting model is to ensure that payroll and income tax withholdings are timely deposited in accordance with applicable federal and state depository requirements.<br><br>Similarly, the Center has also updated its Cash Management policies to monitor routine cash activities and use proactive approach to address any cash shortfalls during routine review process. The center is also implemented a cash monitoring process on daily/weekly basis in conjunction with cash forecast model. The Center was able to reduce their post-petition payroll tax liabilities during fiscal year 2019.<br><br>Initial Finding Year: 2015<br><br>Fully corrected on: 7/1/18 |

| | | |
|---|---|---|
| 2018-007 | Due to deficiencies in the monitoring of patient services billing procedures and client chart records during the period under audit, it was noted during our procedures that certain documentation supporting patient claims could not be located during our audit. Intake forms, signed consent forms, and proof of service in the phsyical patient file, as well as photo identification and proof of insurance were missing from certain patient files. Out of 65 patient files tested, 44 exceptions were noted. | The Center fully implemented its Medical and Dental EMRs after FYE June 2016. AthenaHealth EMR for Medical services was fully implemented in September 2016 and UmbieDental EHR for Dental services was fully implemented in October 2016. Since October 2017, the Center conducts daily and weekly reviews of the billing, collections, and receivables operations. Representatives from clinical, fiscal and executive teams go over previous daily performance and track progress towards monthly and annual targets. In addition, the Center has improved its peer reviews, chart compliance reviews and PCMH preparations to ensure that patient records are appropriately secured and documented.<br><br>Certain documentation and recordkeeping measures were not transitioned well with the new system, however, the Center has and will continue to have staff trainings as well as making sure all staff adhere to policies and procedures, however, employee turnover has created hurdles to acheiving these goals. During fiscal year 2020, a new EHR system has been implemented to attempt to address these ongoing issues.<br><br>Initial Finding Year: 2016 |

**Neighborhood Health Services Corporation**
**(Debtor-in-Possession)**
**Supplementary Schedule of Disbursements by Grant**
**For the Year Ended June 30, 2019**

| | |
|---|---|
| Award: | HIV/AIDS Counseling and Testing/Notification Assistance Program |
| Grant Year: | July 1, 2018 - June 30, 2019 |
| Grant Number: | AIDS19CTN017 |

| Category | (Unaudited) Final Budget | Current Year Expenditures | Final Program Expenditures | Questioned Costs |
|---|---|---|---|---|
| PERSONNEL: | | | | |
| Salaries | $ 201,770 | $ 202,685 | $ 202,685 | |
| Fringe benefits | 32,283 | 32,430 | 32,430 | |
| TOTAL PERSONEL | 234,053 | 235,115 | 235,115 | |
| OTHER: | | | | |
| Office | 2,400 | 3,093 | 3,093 | |
| Program | 13,000 | 12,130 | 12,130 | |
| Travel, conferences and meetings | 500 | - | - | |
| Facility | 21,047 | 20,662 | 20,662 | |
| TOTAL OTHER | 36,947 | 35,885 | 35,885 | |
| TOTAL DIRECT COSTS | 271,000 | 271,000 | 271,000 | |
| TOTAL INDIRECT COSTS | | | | |
| TOTAL COSTS | 271,000 | 271,000 | 271,000 | |
| Less: Program income | | | | |
| NET TOTAL COSTS | $ 271,000 | $ 271,000 | $ 271,000 | |

**Neighborhood Health Services Corporation**

**June 30, 2019 Audit**
**Corrective Action Plan**
***Updated August 28, 2020***

| *(A) CATEGORY RECOMMENDATION* | *(B) TASK/ACTION TAKEN* | *(E) TARGET DATE* | *(F) DATE COMPLETED* | *(F) STAFF ASSIGNED* | *(H) COMMENTS* |
|---|---|---|---|---|---|
| **2019-001 Delinquent Payroll Taxes**<br><br>**Recommendations:** Management should pay its payroll tax liabilities to the applicable authorities. Furthermore, management should closely monitor its cash flows, perform routine reviews of the center's operating budget, and make necessary adjustments to address significant variances | **1. Action Taken:** The Center has implemented a ***Cash Forecasting*** model since 2015 that is in two formats: 1) 12-month mode and 2) weekly model to monitor receipts and expenditures. | Ongoing | | Robert Bodnar, CFO | ***During this audit period, NHSC has post- petition Federal and State tax liabilities, which will be addressed in connection with a Plan or liquidation, in accordance with the Bankruptcy Code.***<br><br>***Since October 18, 2018, NHSC has deposited payroll taxes timely.*** |
| | **2. Action Taken: NHSC** updated its cash management policies. Inclusive in the policy is procedures to monitor processes on a daily/weekly basis in conjunction with cash forecast model mentioned in **1** above.<br><br>NHSC will ensure implementation of the approved policies with new financial staff | Ongoing | | Robert Bodnar, CFO | ***Policy and procedures have been updated, reviewed and accepted by HRSA's third party Harris Group Services, Inc. (Harris-GS) FCR Checklist for Policies and Procedures and board approved.***<br><br>***Post-petition payroll tax liabilities have continued to be reduced during fiscal year 2019.*** |
| | | | | | |

| (A) CATEGORY RECOMMENDATION | (B) TASK/ACTION TAKEN | (E) TARGET DATE | (F) DATE COMPLETED | (F) STAFF ASSIGNED | (H) COMMENTS |
|---|---|---|---|---|---|
| **2019-002 Financial Performance – Going Concern**<br><br>**Recommendations:** We recommend that the Center implement plans to pay off its liabilities, closely monitor its operating cost and strengthen accounting for the use of funds. We also recommend that the Center monitor its revenue to ensure adequate working capital | **1. Action Taken:** In prior years, the Center attempted to sell the property in a sale/lease-back arrangement, however, this never came to be. Fortunately, despite not being able to sell the property, the Center was able to emerge from Bankruptcy during fiscal year 2020 and hopes to be able to improve their financial performance and remove the going concern matter going forward with new financial leadership, sources of income, and improved business practices. | Ongoing | | Robert Bodnar, CFO | ***On October 18, 2018, a Chapter 11 Trustee was appointed to assume management responsibilities of NHSC and administer its bankruptcy estate. The Trustee assisted in stabilizing NHSC's financial situation and operations. The Trustee had obtained a $750,000 line of credit from the New Jersey Health Care Facilities Financing Authority to provide a cushion for working capital. Through efforts of the Trustee and the courts, NHSC was able to successfully emerge from bankruptcy during fiscal year 2020.*** |
| | | | | | |
| **2019-003 Patient Service Billing, Collections and Receivable**<br><br>**Recommendations:** Steps should be taken to strengthen the existing operating procedures related to patient service billings and collections and ensure that billing and collection issues are addressed within a reasonable period after services are provided | **1. Action Taken:** NHSC is in the process of fully implementing its policies and procedures regarding patient billing, collections and Accounts Receivables and has begun reconciling in Athena payments received by payors.<br><br>NHSC reorganized its staff assignments and allocated a team to address processing old inventoried claims. As a result, overall patient service revenues have been received more timely. | Ongoing | | E. Clodomir, Director of Patient Financial Services | ***Aged claims are processed within 90 days compared to 120 days in 2017.***<br><br>***Current claims processing is completed within an average of 48 hours.***<br><br>***A new software has been introduced during fiscal year 2020 to assist with reporting and staying on top of collections.*** |
| | | | | | |

| (A) CATEGORY RECOMMENDATION | (B) TASK/ACTION TAKEN | (E) TARGET DATE | (F) DATE COMPLETED | (F) STAFF ASSIGNED | (H) COMMENTS |
|---|---|---|---|---|---|
| **2019-004 Design and operation of internal control over financial reporting process**<br><br>**Recommendations:** We recommend that the Center strengthen its policies and procedures to ensure that reports are reviewed by an individual who possesses knowledge of GAAP and verified to be complete and accurate prior to submission to auditors and to ensure that supporting documentation that confirm that entries are properly approved, adequately supported, and reflect the underlying events and transactions are maintained. | **Action Taken:** NHSC began a review and assessment of internal controls in 2017 as it relates to financial reporting measures with the court appointed accounting firm and in conjunction with HRSA's third party fiscal consultant group.<br><br>Policy and procedures have been updated, reviewed and accepted by HRSA's third party Harris Group Services, Inc. (Harris-GS) FCR Checklist for Policies and Procedures and board approved.<br><br>Adherence to the newly adopted policies and procedures have improved maintaining timely filing of the financial statements, HRSA FFR, UDS and US Trustee's Office. | Ongoing | | Robert Bodnar, CFO | ***Policy and procedures have been updated, reviewed and accepted by HRSA's third party Harris Group Services, Inc. (Harris-GS) FCR Checklist for Policies and Procedures and board approved.***<br><br>***NHSC's previous CFO resigned on October 18, 2018. The Trustee retained an outside consulting firm, CFO Your Way, to take over the finances and assist the Trustee with his analysis of NHSC's financial landscape during the interim period prior to the current CFO coming on board. NHSC has also replaced the position of Executive Director so there is new leadership charged with operational restructuring and leading the organization following the emergence from bankruptcy.*** |
| | | | | | |
| **2019-005 Recordkeeping**<br><br>**Recommendations:** Steps should be taken to strengthen the existing operating procedures related to recordkeeping to ensure that all expenses and corresponding cash disbursement transactions contain the proper supporting documentation to validate those expenses and this documentation is filed and stored properly in an accessible location. | **Action Taken:** NHSC has implemented Quickbooks software, which requires that documentation (i.e., receipts, invoices, purchase orders, etc.) be attached and uploaded for all expenses prior to disbursement. | Ongoing | | Robert Bodnar, CFO | ***Policies and procedures reflecting this new process and software have been developed and submitted to the Board of Directors for approval.***<br><br>***The new accounting software and financial procedures have already proved helpful to the Organization and it is anticipated that in fiscal year 2020 there will be no recordkeeping issues due to the new accounting software and financial procedures as well as the new CFO on board.*** |

| *(A)* *CATEGORY* *RECOMMENDATION* | *(B)* *TASK/ACTION TAKEN* | *(E)* *TARGET DATE* | *(F)* *DATE COMPLETED* | *(F)* *STAFF ASSIGNED* | *(H)* *COMMENTS* |
|---|---|---|---|---|---|
| **2019-006 US Department of Health & Human Services – Patient Service Billing/Recordkeeping**<br><br>**Recommendations:** Steps should be taken to strengthen the existing operating procedures related to patient services billings and client chart records and ensure that billing and documentation issues are addressed within a reasonable period of time after services are provided. | **Action Taken:** The Center is in the process of implementing its policy and procedures regarding patient billing, collections and Accounts Receivables and has begun reconciling in new software implemented in fiscal year 2020 the payments received by payors as well as ensuring that all electronic recordkeeping for patients is maintained sufficiently.<br><br>Policy and procedures have been updated, reviewed and accepted by HRSA's third party Harris Group Services, Inc. (Harris-GS) FCR Checklist for Policies and Procedures and board approved. | Ongoing | | Robert Bodnar, CFO<br><br>Dr. Powell, CMO/Executive Director<br><br>E. Clodomir, Director of Patient Financial Services | ***With new software for patient services electronic health records as well as new leaderships and policies, it is anticipated that there will be no issues related to electronic health records or billing going forward.*** |
| | | | | | |
| **2019-007 US Department of Health & Human Services – Reporting**<br><br>**Recommendations:** The financial statement audit should be scheduled and completed with sufficient time to file the Data Collection Form by the required deadline. | **Action taken:** The Center is operating under new leadership to ensure that the audit is completed in a timely manner. Updated policies and procedures will reflect the Center's efforts to achieve this. | 9/30/20 | | Robert Bodnar, CFO<br><br>Dr. Powell, CMO/Executive Director | ***During the fiscal year 2018 audit period and the fiscal year 2018 subsequent submission, the Center was operating under interim leadership and working towards trying to emerge from bankruptcy. This will be corrected with a subsequent timely submission and it is anticipated that it will continue to remain corrected going forward.*** |