

**EAST HARLEM COUNCIL FOR HUMAN SERVICES, INC.  
AND AFFILIATE**



**Consolidated Financial Statements  
(Together with Independent Auditors' Report)  
and Supplementary Information**

**June 30, 2019 and 2018**

**and**

**Single Audit Reports and Schedule as Required by the  
Office of Management and Budget Uniform Guidance**

**Year Ended June 30, 2019**

**M A R K S P A N E T H**

ACCOUNTANTS & ADVISORS

**EAST HARLEM COUNCIL FOR HUMAN SERVICES, INC. AND AFFILIATE**

**CONSOLIDATED FINANCIAL STATEMENTS  
(Together with Independent Auditors' Report)  
AND SUPPLEMENTARY INFORMATION**

**JUNE 30, 2019 AND 2018  
AND  
SINGLE AUDIT REPORTS AND SCHEDULE AS REQUIRED BY THE OFFICE OF  
MANAGEMENT AND BUDGET UNIFORM GUIDANCE**

**YEAR ENDED JUNE 30, 2019**

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## INDEPENDENT AUDITORS' REPORT

The Board of Directors of  
East Harlem Council for Human Services, Inc. and Affiliate

### **Report on the Consolidated Financial Statements**

We have audited the accompanying consolidated financial statements of East Harlem Council for Human Services, Inc. and Affiliate (collectively, the "Council") which comprise the consolidated statements of financial position as of June 30, 2019 and 2018, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the consolidated financial statements.

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

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

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

### ***Opinion***

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of East Harlem Council for Human Services, Inc. and Affiliate as of June 30, 2019 and 2018, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### **Emphasis of Matter**

As discussed in Note 2 to the consolidated financial statements, during the year ended June 30, 2019, the Council adopted Accounting Standards Update 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

### **Report on Supplementary Information**

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary consolidating information (shown on pages 20 through 23) and the accompanying schedule of expenditures of federal awards (“SEFA”) for the year ended June 30, 2019, (shown on page 24), as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (“Uniform Guidance”), are presented for the purpose of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated May 14, 2020, on our consideration of the Council’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Council’s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Council’s internal control over financial reporting and compliance.

*Marks Paneth LLP*

New York, NY  
May 14, 2020

**EAST HARLEM COUNCIL FOR HUMAN SERVICES, INC. AND AFFILIATE**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
**AS OF JUNE 30, 2019 AND 2018**

	<b>2019</b>	<b>2018</b>
<b>ASSETS</b>		
Current assets		
Cash (Notes 2D and 16)	\$ 3,249,326	\$ 4,730,700
Patient services receivable, net (Notes 2J, 2O and 4)	701,581	408,647
Contracts receivable (Notes 2I and 5)	457,361	253,531
340B pharmacy receivable (Note 2K)	387,340	530,100
Restricted deposits and funded reserves (Notes 2D, 6 and 16)	195,289	236,982
Other current assets	363,017	225,003
Total current assets	5,353,914	6,384,963
Noncurrent assets		
Property and equipment, net (Notes 2E, 2F and 7)	20,543,314	21,193,801
Loan receivable (Note 8)	14,385,980	14,385,980
Other assets	21,101	22,708
Total noncurrent assets	34,950,395	35,602,489
 <b>TOTAL ASSETS</b>	 <b>\$ 40,304,309</b>	 <b>\$ 41,987,452</b>
<b>LIABILITIES</b>		
Current liabilities		
Accounts payable and accrued expenses	\$ 1,021,251	\$ 606,994
Accrued compensation (Note 2G)	587,418	571,132
Due to funding agencies (Note 9)	60,404	660,631
Operating capital advances (Note 11B)	99,996	99,996
Total current liabilities	1,769,069	1,938,753
Noncurrent liabilities		
Loans payable, net (Notes 2H and 10)	22,898,481	22,882,284
Long-term obligation - operating capital advances (Note 11B)	191,679	350,371
Total noncurrent liabilities	23,090,160	23,232,655
 <b>TOTAL LIABILITIES</b>	 <b>24,859,229</b>	 <b>25,171,408</b>
 <b>COMMITMENTS AND CONTINGENCIES</b> (Note 17)		
 <b>NET ASSETS - Without donor restrictions</b> (Note 2C)	 <b>15,445,080</b>	 <b>16,816,044</b>
 <b>TOTAL LIABILITIES AND NET ASSETS</b>	 <b>\$ 40,304,309</b>	 <b>\$ 41,987,452</b>

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

**EAST HARLEM COUNCIL FOR HUMAN SERVICES, INC. AND AFFILIATE  
CONSOLIDATED STATEMENTS OF ACTIVITIES  
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018**

	<b>2019</b>	<b>2018</b>
<b>OPERATING REVENUE AND SUPPORT:</b>		
Patient services revenue, net of contractual allowances and discounts (Notes 2J, 9 and 12)	\$ 7,760,472	\$ 7,240,068
Provision for bad debts	<u>(322,793)</u>	<u>(568,697)</u>
Patient services revenue, net of provision for bad debts	7,437,679	6,671,371
Contract service revenue (Notes 2I and 13)	4,931,823	4,682,437
U.S. Department of Health and Human Services ("DHHS") grants (Notes 2I and 14)	3,465,643	3,462,989
Meaningful use incentive payments (Note 2N)	85,000	376,309
Donated facilities, medical supplies and services (Note 2M)	1,736,131	1,675,882
340B pharmacy revenue (Note 2K)	3,917,928	2,721,535
Other revenues	<u>398,572</u>	<u>279,479</u>
<b>TOTAL OPERATING REVENUE AND SUPPORT</b>	<u>21,972,776</u>	<u>19,870,002</u>
<b>OPERATING EXPENSES:</b>		
Program Services:		
Clinic Services	15,160,695	10,948,592
Headstart	5,156,089	4,914,352
Senior Nutrition	650,865	608,732
Women, Infants and Children	<u>391,320</u>	<u>413,764</u>
<b>Total Program Services</b>	21,358,969	16,885,440
Management and general	<u>2,135,096</u>	<u>2,402,578</u>
<b>TOTAL OPERATING EXPENSES</b> (Note 2P)	<u>23,494,065</u>	<u>19,288,018</u>
<b>Operating (Loss) Income</b> (Note 2Q)	<u>(1,521,289)</u>	<u>581,984</u>
<b>Non-operating Revenue</b>		
Gain on termination of long-term obligation under subvention agreement (Note 11A)	-	500,000
Interest income (Note 8)	<u>150,325</u>	<u>147,809</u>
<b>Non-operating Revenue</b> (Note 2Q)	<u>150,325</u>	<u>647,809</u>
<b>CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS</b>	(1,370,964)	1,229,793
<b>Net Assets Without Donor Restrictions - Beginning of Year</b>	<u>16,816,044</u>	<u>15,586,251</u>
<b>NET ASSETS WITHOUT DONOR RESTRICTIONS - END OF YEAR</b>	<u>\$ 15,445,080</u>	<u>\$ 16,816,044</u>

**EAST HARLEM COUNCIL FOR HUMAN SERVICES, INC. AND AFFILIATE**  
**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED JUNE 30, 2019**  
**(WITH COMPARATIVE TOTALS FOR JUNE 30, 2018)**

	For the Year Ended June 30, 2019								
	Program Services				Supporting Services				
	Clinic Services	Headstart	Senior Nutrition	Women, Infants, and Children	Total Program Services	Building and Facilities	Management and General	Total 2019	Total 2018
Salaries and wages	\$ 8,180,542	\$ 1,931,903	\$ 288,286	\$ 213,620	\$ 10,614,351	\$ -	\$ 868,264	\$ 11,482,615	\$ 9,280,918
Payroll taxes and employee benefits (Note 15)	1,722,833	795,622	114,193	49,927	2,682,575	-	207,315	2,889,890	2,732,132
<b>Total Personnel Costs</b>	<u>9,903,375</u>	<u>2,727,525</u>	<u>402,479</u>	<u>263,547</u>	<u>13,296,926</u>	<u>-</u>	<u>1,075,579</u>	<u>14,372,505</u>	<u>12,013,050</u>
Occupancy (Note 17A)	135,729	294,496	61,924	33,776	525,925	-	51,412	577,337	576,222
In-kind occupancy (Note 2M)	-	1,492,292	-	-	1,492,292	-	-	1,492,292	1,442,183
Consultants and contractors (Note 18)	516,554	127,294	25,548	7,842	677,238	-	93,042	770,280	500,595
Equipment rental, maintenance and repairs	268,703	105,357	8,278	1,277	383,615	-	59,300	442,915	361,067
Medical supplies	660,014	-	-	800	660,814	-	-	660,814	582,155
Pharmaceutical supplies	1,966,036	-	-	-	1,966,036	-	-	1,966,036	1,166,914
Food	4,921	199,614	103,110	-	307,645	-	23,672	331,317	324,270
Consumable supplies	127,980	107,183	-	2,432	237,595	-	15,492	253,087	227,012
Laboratory fees and diagnostics	239,869	-	-	-	239,869	-	-	239,869	201,429
Professional fees	-	7,500	-	1,500	9,000	-	227,991	236,991	139,016
Telephone	114,341	25,236	5,233	4,987	149,797	-	10,870	160,667	162,127
Insurance	76,705	23,004	4,239	-	103,948	-	26,052	130,000	131,772
Travel, conferences, and meetings	20,680	13,402	7,339	541	41,962	-	25,346	67,308	68,367
Depreciation and amortization (Note 7)	259,782	-	-	-	259,782	567,724	13,792	841,298	791,403
Printing, publications, and postage	61,497	150	8,083	-	69,730	-	8,842	78,572	50,038
Management fees (Note 6B)	-	-	-	-	-	-	42,250	42,250	42,250
Dues and subscriptions	855	4,400	-	-	5,255	-	19,053	24,308	22,883
Patient transportation	4,456	14,410	-	-	18,866	-	-	18,866	21,531
Public information	200	-	-	-	200	-	-	200	925
Interest and fees (Note 10)	134,475	-	-	7,998	142,473	144,368	57,986	344,827	363,005
Provision for bad debts	322,793	-	-	-	322,793	-	-	322,793	568,697
Other (Note 17B)	187,421	14,226	24,632	38,136	264,415	250	177,661	442,326	99,804
	<u>5,103,011</u>	<u>2,428,564</u>	<u>248,386</u>	<u>99,289</u>	<u>7,879,250</u>	<u>712,342</u>	<u>852,761</u>	<u>9,444,353</u>	<u>7,843,665</u>
<b>Total Expenses per Allocation of Building and Facilities Expenses</b>	<u>15,006,386</u>	<u>5,156,089</u>	<u>650,865</u>	<u>362,836</u>	<u>21,176,176</u>	<u>712,342</u>	<u>1,928,340</u>	<u>23,816,858</u>	<u>19,856,715</u>
<b>Allocation of Building and Facilities Expenses</b>									
Depreciation and amortization	380,375	-	-	22,709	403,084	(567,724)	164,640	-	-
Interest and fees	96,727	-	-	5,775	102,502	(144,368)	41,866	-	-
Other	-	-	-	-	-	(250)	250	-	-
	<u>477,102</u>	<u>-</u>	<u>-</u>	<u>28,484</u>	<u>505,586</u>	<u>(712,342)</u>	<u>206,756</u>	<u>-</u>	<u>-</u>
<b>Less: Provision for bad debts related to patient services</b>	<u>(322,793)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(322,793)</u>	<u>-</u>	<u>-</u>	<u>(322,793)</u>	<u>(568,697)</u>
<b>Total Expenses</b>	<u>\$ 15,160,695</u>	<u>\$ 5,156,089</u>	<u>\$ 650,865</u>	<u>\$ 391,320</u>	<u>\$ 21,358,969</u>	<u>\$ -</u>	<u>\$ 2,135,096</u>	<u>\$ 23,494,065</u>	<u>\$ 19,288,018</u>

**EAST HARLEM COUNCIL FOR HUMAN SERVICES, INC. AND AFFILIATE  
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED JUNE 30, 2018**

	Program Services				Supporting Services		Total 2018	
	Clinic Services	Headstart	Senior Nutrition	Women, Infants, and Children	Total Program Services	Building and Facilities		Management and General
Salaries and wages	\$ 5,601,984	\$ 1,859,811	\$ 270,252	\$ 234,153	\$ 7,966,200	\$ -	\$ 1,314,718	\$ 9,280,918
Payroll taxes and employee benefits (Note 15)	1,528,801	750,759	108,571	63,181	2,451,312	-	280,820	2,732,132
<b>Total Personnel Costs</b>	<u>7,130,785</u>	<u>2,610,570</u>	<u>378,823</u>	<u>297,334</u>	<u>10,417,512</u>	<u>-</u>	<u>1,595,538</u>	<u>12,013,050</u>
Occupancy (Note 17A)	142,937	298,534	62,520	27,391	531,382	-	44,840	576,222
In-kind occupancy (Note 2M)	-	1,442,183	-	-	1,442,183	-	-	1,442,183
Consultants and contractors (Note 18)	204,171	64,931	12,271	-	281,373	-	219,222	500,595
Equipment rental, maintenance and repairs	223,300	76,089	3,675	-	303,064	-	58,003	361,067
Medical supplies	582,155	-	-	-	582,155	-	-	582,155
Pharmaceutical supplies	1,166,914	-	-	-	1,166,914	-	-	1,166,914
Food	764	208,530	102,486	-	311,780	-	12,490	324,270
Consumable supplies	89,129	112,760	-	8,542	210,431	-	16,581	227,012
Laboratory fees and diagnostics	201,429	-	-	-	201,429	-	-	201,429
Professional fees	9,000	7,500	-	1,760	18,260	-	120,756	139,016
Telephone	108,824	26,935	8,197	1,707	145,663	-	16,464	162,127
Insurance	88,405	24,816	3,426	-	116,647	-	15,125	131,772
Travel, conferences, and meetings	10,315	15,380	12,510	531	38,736	-	29,631	68,367
Depreciation and amortization (Note 7)	219,047	-	-	-	219,047	567,724	4,632	791,403
Printing, publications, and postage	28,190	570	17,400	-	46,160	-	3,878	50,038
Management fees (Note 6B)	-	-	-	-	-	-	42,250	42,250
Dues and subscriptions	13,340	4,400	4,666	-	22,406	-	477	22,883
Patient transportation	4,777	16,154	600	-	21,531	-	-	21,531
Public information	925	-	-	-	925	-	-	925
Interest and fees (Note 10)	218,637	-	-	-	218,637	144,368	-	363,005
Provision for bad debts	568,697	-	-	-	568,697	-	-	568,697
Other	28,446	5,000	2,158	48,015	83,619	250	15,935	99,804
	<u>3,909,402</u>	<u>2,303,782</u>	<u>229,909</u>	<u>87,946</u>	<u>6,531,039</u>	<u>712,342</u>	<u>600,284</u>	<u>7,843,665</u>
<b>Total Expenses per Allocation of Building and Facilities Expenses</b>	<u>11,040,187</u>	<u>4,914,352</u>	<u>608,732</u>	<u>385,280</u>	<u>16,948,551</u>	<u>712,342</u>	<u>2,195,822</u>	<u>19,856,715</u>
<b>Allocation of Building and Facilities Expenses</b>								
Depreciation and amortization	380,375	-	-	22,709	403,084	(567,724)	164,640	-
Interest and fees	96,727	-	-	5,775	102,502	(144,368)	41,866	-
Other	-	-	-	-	-	(250)	250	-
	<u>477,102</u>	<u>-</u>	<u>-</u>	<u>28,484</u>	<u>505,586</u>	<u>(712,342)</u>	<u>206,756</u>	<u>-</u>
<b>Less: Provision for bad debts related to patient services</b>	<u>(568,697)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(568,697)</u>	<u>-</u>	<u>-</u>	<u>(568,697)</u>
<b>Total Expenses</b>	<u>\$ 10,948,592</u>	<u>\$ 4,914,352</u>	<u>\$ 608,732</u>	<u>\$ 413,764</u>	<u>\$ 16,885,440</u>	<u>\$ -</u>	<u>\$ 2,402,578</u>	<u>\$ 19,288,018</u>

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



**EAST HARLEM COUNCIL FOR HUMAN SERVICES, INC. AND AFFILIATE  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018**

	<b>2019</b>	<b>2018</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Changes in net assets	\$ (1,370,964)	\$ 1,229,793
Adjustments to reconcile changes in net assets to net cash (used in) provided by operating activities:		
Depreciation and amortization	825,101	775,206
Amortization of deferred financing costs	16,197	16,197
Provision for bad debts	322,793	568,697
Gain on termination of long-term obligation under subvention agreement	-	(500,000)
Subtotal	(206,873)	2,089,893
Changes in assets and liabilities:		
Decrease (increase) in assets:		
Patient services receivable	(615,727)	(314,478)
Contracts receivable	(203,830)	(46,683)
340B pharmacy receivable	142,760	(530,100)
Other current assets	(138,014)	(129,482)
Other assets	1,607	-
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	414,257	182,051
Accrued compensation	16,286	(3,062)
Due to funding agencies	(600,227)	568,240
<b>Net Cash (Used In) Provided by Operating Activities</b>	<b>(1,189,761)</b>	<b>1,816,379</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of property and equipment	(174,614)	(305,515)
Change in restricted deposits and funded reserves	41,693	42,021
<b>Net Cash Used in Investing Activities</b>	<b>(132,921)</b>	<b>(263,494)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Operating capital advances	-	458,700
Repayment of operating capital advances	(158,692)	(8,333)
<b>Net Cash (Used In) Provided by Financing Activities</b>	<b>(158,692)</b>	<b>450,367</b>
<b>NET (DECREASE) INCREASE IN CASH</b>	<b>(1,481,374)</b>	<b>2,003,252</b>
Cash - beginning of year	4,730,700	2,727,448
<b>CASH AT END OF YEAR</b>	<b>\$ 3,249,326</b>	<b>\$ 4,730,700</b>
<b>Supplemental Disclosure of Cash Flow Information:</b>		
Cash Paid During the Year for Interest	\$ 344,319	\$ 362,497
Non-cash Investing and Financing Transactions:		
Termination of long-term obligation under subvention agreement	\$ -	\$ 500,000

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

**EAST HARLEM COUNCIL FOR HUMAN SERVICES, INC. AND AFFILIATE  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2019 AND 2018**

**NOTE 1 – ORGANIZATION AND NATURE OF ACTIVITIES**

East Harlem Council for Human Services, Inc. (“EHCHS”), a Federally Qualified Health Center, operates a free-standing diagnostic and treatment center, licensed under Article 28 of the New York State Health Law, located in New York, New York. EHCHS provides a broad range of health and human services to a largely medically underserved population in the East Harlem Community.

EHCHS also provides complimentary education and social services to the same population through its other programs. The U.S. Department of Health and Human Services (“DHHS”) provides substantial support to EHCHS. EHCHS is obligated under the terms of its DHHS grants to comply with specified conditions and program requirements.

EHCHS qualifies as a charitable organization as defined by Internal Revenue Code Section 501(c)(3) and, accordingly, is exempt from federal income taxes. EHCHS is also exempt from New York State and New York City income taxes.

On June 26, 2013, Boriken Local Development Corporation (“BLDC”) was organized as a New York 501(c)(3) non-stock, nonprofit corporation with EHCHS as its sole member. BLDC was formed to develop and own a facility for delivery of social and health care services in the community of East Harlem, New York. BLDC leases the facility to EHCHS under a lease agreement which commenced on November 1, 2013 and expires on December 1, 2038. Construction on the facility was fully completed in July 2014. The property is operated in such a way that it qualifies as a Qualified Active Low-Income Community Business under the definition of the New Markets Tax Credit Program under IRC §45(d).

The accompanying consolidated financial statements include the accounts of EHCHS and BLDC (collectively, the “Council”).

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

- A. ***Basis of Accounting and Use of Estimates*** – The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”). The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.
- B. ***Basis of Consolidation*** – The consolidated financial statements have been prepared by consolidating the financial statements of EHCHS and BLDC. All significant intercompany transactions are eliminated in consolidation.
- C. ***Net Assets*** – The Council maintains its net assets under the following two classes:
- Net assets without donor restrictions – represents net assets not restricted by donor-imposed stipulations. Donor restricted contributions whose restrictions are met within the same year as received are reflected as contributions without donor restrictions in the accompanying consolidated financial statements. The Council reports gifts of property and equipment (or other long-lived assets) as support without donor restrictions unless explicit donor stipulations specify how the donated assets are to be used.
  - Net assets with donor restrictions – represents assets that are subject to donor-imposed stipulations and unappropriated earnings on donor-restricted endowment funds. When a restriction expires (that is, when a stipulated time restriction ends, or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statement of activities as net assets released from restrictions. Net assets with donor restrictions also include assets that must remain intact in perpetuity.

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**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

- D. **Cash Equivalents** – For financial reporting purposes, all liquid investments with a maturity of three months or less at the time of purchase that are available for operations are considered to be cash equivalents. The Council had no cash equivalents as of June 30, 2019 and 2018, respectively.
- E. **Property and Equipment** – Property and equipment is stated at cost less accumulated depreciation. These amounts do not purport to represent replacement or realizable values. The Council capitalizes acquisitions that have a cost of \$5,000 or more and a useful life of greater than a year. Depreciation is computed using the straight-line method over the estimated useful lives of the assets which range from 5 to 12 years for furniture and equipment and 40 years for building and improvements. Leasehold improvements are amortized over the lesser of the useful lives of the improvements or the term of the applicable lease.
- F. **Impairment of Long-lived Assets** – The Council reviews its property and equipment for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. When recovery is reviewed, if the undiscounted cash flows estimated to be generated by the property are less than its carrying amount, management compares the carrying amount of the property to its fair value in order to determine whether an impairment loss has incurred. The amount of the impairment loss is equal to the excess of the asset's carrying value over its estimated fair value. No impairment losses were recognized during the years ended June 30, 2019 and 2018.
- G. **Compensated Absences** – The Council's policy is to accrue all vested vacation benefits as earned by employees, up to established maximum limits. As of June 30, 2019 and 2018, accrued vacation amounted to \$326,943 and \$282,008, respectively, which is included in the accrued compensation liability in the accompanying consolidated financial statements.
- H. **Deferred Financing Costs** – Loan fees paid by the Council for the origination of loans payable are being amortized over the life of the loans on the straight-line method and are presented as a reduction of the carrying amount of the debt rather than as an asset (see Note 10). U.S. GAAP requires that the effective yield method be used to amortize financing costs; however, the effect of using the straight-line method is not materially different from the results that would have been obtained under the effective yield method.
- I. **Grants and Contracts** – Revenue from government grants and contracts designated for use in specific activities is recognized in the period when expenditures have been incurred in compliance with the grantor's restrictions. Grants and contract awards for the acquisition of long-lived assets are reported as unrestricted non-operating revenue, in the absence of donor stipulations to the contrary, during the fiscal year in which the assets were acquired. Cash received in excess of revenue recognized is recorded as refundable advances. As of June 30, 2019 and 2018, refundable advances amounted to \$60,404 and \$25,156, respectively.

As of June 30, 2019 and 2018, the Council had received conditional grants and contracts from government agencies in the aggregate amount of \$2,548,195 and \$2,249,610, respectively, that have not been recorded in the accompanying consolidated financial statements, as they have not been earned. These grants and contracts require the Council to provide certain healthcare services during specified periods. If such services are not provided, the governmental entities are not obligated to expend the funds allotted under the grants and contracts and may be required to return the funds already remitted.

- J. **Patient Services Revenue** – The Council has agreements with third-party payors that provide for payments to the Council at amounts different from its established rates. Payment arrangements include predetermined fee schedules and discounted charges. Service fees are reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered, including retroactive adjustments under reimbursement agreements with third-party payors, which are subject to audit by administering agencies. These adjustments are accrued on an estimated basis and are adjusted in future periods as determined necessary.

**EAST HARLEM COUNCIL FOR HUMAN SERVICES, INC. AND AFFILIATE**  
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**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

The Council provides care to certain patients under Medicaid and Medicare payment arrangements. Laws and regulations governing the Medicaid and Medicare programs are complex and subject to interpretation. Compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action.

Self-pay revenue is recorded at published charges with contractual allowances deducted to arrive at net self-pay revenue.

The Council provides care to patients who meet certain criteria under its charity care policy at no charge or at amounts less than its established rates. Because the Council does not expect to collect amounts determined to qualify as charity care, a full write-off is taken against revenue. The Council estimates the level of charity care for the years ended June 30, 2019 and 2018 to be \$1,841,750 and \$1,661,750, respectively.

- K. **340B Pharmacy Revenues** – Pharmacy revenue is generated through the 340B program that the Council operates through its agreements with various unaffiliated pharmacies. On May 12, 2017, the Council entered into a Pharmacy Management Services Agreement with Maxor National Pharmacy Services, LLC (“Maxor”) for the management and operation of the Council’s in-house pharmacy (“Boriken Pharmacy”). Boriken Pharmacy commenced operations in February 2018. The 340B program allows the Council to offer discounted medications to eligible patients. The Council recognizes pharmacy revenue as prescriptions are filled for the self-pay population and upon adjudication from other third-party payors. Under the 340B program, the Council used the unaffiliated pharmacies as the administrative agents for the purpose of managing the pharmacy program. Effective July 31, 2018, the agreements with the unaffiliated pharmacies were terminated and the program now operates mainly through the Boriken Pharmacy.

During 2019, contracts with three unaffiliated pharmacies were renewed. Effective January 18, 2019, the Council entered into a 340B Services Agreement with MaxorPlus Ltd. to provide management support and technical assistance for tracking 340B-eligible pharmacy transactions and replenishments with contracted pharmacies.

For the years ended June 30, 2019 and 2018, the Council recognized revenue from the 340B program amounting to \$3,917,928 and \$2,721,535, respectively.

- L. **Contributions** – Contributions, including unconditional promises to give, are recorded when received. All contributions are available for unrestricted use unless specifically restricted by the donor. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Unconditional promises to give due in subsequent years are reported at the present value of their net realizable value, using risk-free interest rates applicable to years in which the promises are expected to be received.

- M. **Donated Facilities, Medical Supplies and Services** – The Council has the use of two facilities for its programs for an amount that is below the fair market rental value of the facilities. For the years ended June 30, 2019 and 2018, the donated portion of the facilities was \$1,492,292 and \$1,442,183, respectively.

The Council receives donated vaccines from the City of New York through its Vaccines for Children (“VFC”) program, a federally funded program that provides vaccines at no cost to children. Donated vaccines were valued at \$243,839 and \$233,699 for the years ended June 30, 2019 and 2018, respectively. The donations were recorded at their estimated fair market value at the date of the contribution and included in the consolidated statements of activities.

Contributions of services are recognized in the consolidated financial statements if the services enhance or create non-financial assets or require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased, if not provided by donation. The Council also receives a substantial amount of services donated by volunteers in carrying out one of its program activities. Amounts have been reflected in the financial statements for those services. No amounts were recognized for donated services and materials in the accompanying consolidated financial statements for the years ended June 30, 2019 and 2018.

**EAST HARLEM COUNCIL FOR HUMAN SERVICES, INC. AND AFFILIATE**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

N. ***Meaningful Use Incentive Payments*** – 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. These provisions of ARRA, together with certain of its other provisions, are referred to as the Health Information Technology for Economic and Clinical Health ("HITECH") Act. The criteria for meaningful use incentives will be staged in three steps over the course of six years and be paid out based on a transitional schedule. The Council's providers have met the criteria for Stages 1, 2 and 3 and have earned \$85,000 and \$174,250 from the Medicaid incentive program for the years ended June 30, 2019 and 2018, respectively.

During the years ended June 30, 2019 and 2018, the Council received additional EHR distribution payments from the New York State Department of Health amounting to \$0 and \$202,059, respectively, which are included in meaningful use incentive payments in the accompanying consolidated statements of activities.

O. ***Allowance for Uncollectible Accounts Receivable*** – The Council uses the reserve for bad debt method of valuing doubtful patient accounts receivable, which is based on historical experience, coupled with a review of the current status of existing receivable. The Council establishes a reserve for uncollectible receivables based on an evaluation of the status of past due patient accounts and the Council's collection history. Receivables are written-off against the reserve only when all efforts to collect the balance have been exhausted.

P. ***Functional Allocation of Expenses*** – The costs of providing various programs and other activities of Council have been summarized on a functional basis in the consolidated statements of functional expenses. The consolidated statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

The accompanying consolidated financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include occupancy, insurance, depreciation and amortization, which are allocated on a square footage basis, as well as salaries and wages, benefits, payroll taxes, which are allocated on the basis of estimates of time and effort, professional services, office expenses, information technology and other, which are allocated on the basis of full time equivalents.

Q. ***Operating and Non-Operating Activities*** – The consolidated statements of activities include operating income as the performance indicator. The Council includes in its definition of operations all revenues and expenses that are an integral part of its programs and supporting activities. Changes in net assets without donor restrictions, which are excluded from operating activities include interest income and the gain on the termination of the long-term obligation under the subvention agreement (see Note 11A).

R. ***Recent Accounting Pronouncements*** – Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") 2016-14, *Not-for-Profit Entities* (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities* was adopted for the year ended June 30, 2019. ASU 2016-14 provides for a number of changes, including the presentation of two classes of net assets and enhanced disclosure on liquid resources and expense allocation. These changes had no impact on the change in net assets for the year ended June 30, 2019. Due to these changes, the Council has reclassified prior periods and fully comparative financial statements are presented. Net assets as of June 30, 2018 were renamed to conform to the new presentation.

**EAST HARLEM COUNCIL FOR HUMAN SERVICES, INC. AND AFFILIATE  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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**NOTE 3 – LIQUIDITY AND AVAILABILITY OF RESOURCES**

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

Cash	\$ 3,249,326
Patient services receivable, net	701,581
Contracts receivable	457,361
340B pharmacy receivable	<u>387,340</u>
	<u>\$ 4,795,608</u>

Amounts reported within restricted deposits and funded reserve account in the consolidated statements of financial position could be made available, provided the circumstances required to draw on the reserve is met.

**NOTE 4 – PATIENT SERVICES RECEIVABLE, NET**

The Council grants credit without collateral to its patients, mostly are residents of the City of New York and the greater metropolitan area and are insured under third-party payor agreements.

Patient services receivable, net consisted of the following as of June 30:

	<u>2019</u>	<u>2018</u>
Medicaid	\$ 1,154,958	\$ 1,119,919
Medicare	282,070	186,607
Commercial Insurance	409,969	310,997
Other	<u>107,909</u>	<u>31,744</u>
	1,954,906	1,649,267
Less: allowance for doubtful accounts	<u>(1,253,325)</u>	<u>(1,240,620)</u>
	<u>\$ 701,581</u>	<u>\$ 408,647</u>

**NOTE 5 – CONTRACTS RECEIVABLE**

Contracts receivable consisted of the following as of June 30:

	<u>2019</u>	<u>2018</u>
New York State Department of Health:		
School Health Program	\$ 43,018	\$ 13,150
Head Start	356,303	71,362
Child and Adult Care Food Program	16,404	19,355
Women, Infants, and Children	35,264	71,194
New York City Department for the Aging:		
Senior Nutrition Program	<u>6,372</u>	<u>78,470</u>
	<u>\$ 457,361</u>	<u>\$ 253,531</u>

**EAST HARLEM COUNCIL FOR HUMAN SERVICES, INC. AND AFFILIATE  
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**NOTE 6 – RESTRICTED DEPOSITS AND FUNDED RESERVES**

Restricted deposits and funded reserves consisted of the following as of June 30:

	<u>2019</u>	<u>2018</u>
PCDC Debt Service Reserve	\$ 109,064	\$ 109,064
Fee Reserve Account	86,225	127,918
	<u>\$ 195,289</u>	<u>\$ 236,982</u>

**A. Debt Service Reserve**

In accordance with the loan agreement between EHCHS and Primary Care Development Corporation (“PCDC”) as described in Note 10, EHCHS funded a debt service reserve held by PCDC in an amount equal to \$109,064, which is equal to six (6) months of interest payments on the loan amount.

**B. Fee Reserve Account**

In accordance with the loan agreement with Consortium America L, LLC (“CA Lender”) further described in Note 10, BLDC established a cash reserve account in the amount of \$338,000 to be used to pay asset management and administrative fees to CA Lender. As of June 30, 2019 and 2018, the balance of this account was \$86,225 and \$127,918, respectively. Interest earned is added to the account balance and the fee reserve account is being held in a money market savings account. For each of the years ended June 30, 2019 and 2018, administrative fees incurred and paid were \$42,250.

**NOTE 7 – PROPERTY AND EQUIPMENT, NET**

Property and equipment consisted of the following as of June 30:

	<u>2019</u>	<u>2018</u>	<u>Estimated Useful Lives</u>
Building and improvements	\$ 23,540,680	\$ 23,523,988	40 years
Furniture and equipment	2,279,575	2,137,318	5-12 years
Land	169,200	169,200	
	<u>25,989,455</u>	<u>25,830,506</u>	
Less: Accumulated depreciation and amortization	<u>(5,446,141)</u>	<u>(4,636,705)</u>	
	<u>\$ 20,543,314</u>	<u>\$ 21,193,801</u>	

In the event that the DHHS grants are terminated, DHHS reserves the right to transfer all property and equipment purchased with grant funds and/or grant-related income to third parties.

Depreciation and amortization for the years ended June 30, 2019 and 2018 was \$825,101 and \$775,206, respectively.

For the year ended June 30, 2019, there were disposals of fully depreciated property and equipment with an original cost of \$15,665.

**NOTE 8 – LOAN RECEIVABLE**

On September 4, 2013, the Council executed a fund loan agreement with Chase NMTC Boriken Investment Fund, LLC in the amount of \$14,385,980. The principal balance of the loan shall accrue interest at 1% per annum. Commencing December 10, 2013, quarterly installments of interest are due through December 10, 2020. Commencing March 10, 2021, quarterly installments of principal and interest equal to \$188,076 shall be due to fully amortize the loan through maturity on March 31, 2042. Interest income for the years ended June 30, 2019 and 2018, amounted to \$144,368 for each year.

**EAST HARLEM COUNCIL FOR HUMAN SERVICES, INC. AND AFFILIATE  
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**NOTE 9 – DUE TO FUNDING AGENCIES**

Due to funding agencies consisted of the following as of June 30:

	<u>2019</u>	<u>2018</u>
Retroactive rate adjustments	\$ -	\$ 635,475
Refundable advances	60,404	25,156
	<u>\$ 60,404</u>	<u>\$ 660,631</u>

In October 2018, the Council was notified of a negative retroactive rate adjustment amounting to \$635,475, processed by the NYS Medicaid Management Information System, covering the years 2015 through 2018. Such amount was recorded as a reduction to patient services revenue and was repaid through recoupments from Medicaid billings during the year June 30, 2019.

Advances from government funding sources will be applied against future expenses or claims.

**NOTE 10 – LOANS PAYABLE, NET**

Loans payable consisted of the following as of June 30:

	<u>2019</u>	<u>2018</u>
<b>Primary Care Development Corporation (PCDC-Loan)</b> - On September 4, 2013, the Council entered into a loan agreement with PCDC with the commitment amount of \$3,813,441 and an interest rate of 5.72%. Interest is payable monthly starting October 1, 2013. The principal amount becomes due upon maturity on September 30, 2020.	\$ 3,813,441	\$ 3,813,441
<b>CNMC Loan A</b> - BLDC executed a loan payable with CNMC Sub-CDE 31, LLC ("CNMC Lender") on September 4, 2013 in the amount of \$2,040,600. The loan bears interest at 0.738% per annum. The loan is secured by a mortgage, assignment of leases and rents, security agreement, and an unconditional payment guaranty from the Council. Commencing December 1, 2013, quarterly payments of interest only are due through and including December 1, 2020. Commencing March 1, 2021, quarterly payments of principal and interest shall be due in the amount of \$20,184 through maturity on December 1, 2048, at which time all outstanding principal and any accrued interest shall be due.	2,040,600	2,040,600
<b>CNMC Loan B</b> - BLDC executed a second loan payable with CNMC Lender on September 4, 2013 in the amount of \$959,400. The loan bears interest at 0.738% per annum. The loan is secured by a mortgage, assignment of leases and rents, security agreement, and an unconditional payment guaranty from the Council. Commencing December 1, 2013, quarterly payments of interest only are due through and including December 1, 2020. Commencing March 1, 2021, quarterly payments of principal and interest shall be due in the amount of \$9,490 through maturity on December 1, 2048, at which time all outstanding principal and any accrued interest shall be due.	959,400	959,400



**EAST HARLEM COUNCIL FOR HUMAN SERVICES, INC. AND AFFILIATE  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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**NOTE 10 – LOANS PAYABLE, NET (Continued)**

	2019	2018
<p><b>Consortium Loan A</b> - BLDC executed a loan payable with Consortium America L, LLC (“CA Lender”) on September 4, 2013 in the amount of \$12,345,380. The loan bears interest at 0.738% per annum. The loan is secured by a mortgage, assignment of leases and rents, security agreement, and an unconditional payment guaranty from the Council. Commencing December 1, 2013, quarterly payments of interest only are due through and including December 1, 2020. Commencing March 1, 2021, quarterly payments of principal and interest amounting to \$122,109 shall be due to fully amortize the loan through maturity on December 1, 2048, at which time all outstanding principal and any accrued interest shall be due.</p>	\$ 12,345,380	\$ 12,345,380
<p><b>Consortium Loan B</b> - BLDC executed a second loan payable with CA Lender on September 4, 2013 in the amount of \$4,216,620. The loan bears interest at 0.738% per annum. The loan is secured by a mortgage, assignment of leases and rents, security agreement, and an unconditional payment guaranty from the Council. Commencing December 1, 2013, quarterly payments of interest only are due through and including December 1, 2020. Commencing March 1, 2021, quarterly payments of principal and interest amounting to \$41,707 shall be due to fully amortize the loan through maturity on December 1, 2048, at which time all outstanding principal and any accrued interest shall be due.</p>	4,216,620	4,216,620
<p>Total loans payable</p>	23,375,441	23,375,441
<p>Less unamortized debt issuance costs</p>	(476,960)	(493,157)
<p>Loans payable - net</p>	<u>\$ 22,898,481</u>	<u>\$ 22,882,284</u>

For the five years subsequent to June 30, 2019 and thereafter, future annual payments are as follows:

	PCDC	CNMC		Consortium		Total
		Loan A	Loan B	Loan A	Loan B	
2020	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2021	3,813,441	80,736	37,960	488,436	166,828	4,587,401
2022	-	80,736	37,960	488,436	166,828	773,960
2023	-	80,736	37,960	488,436	166,828	773,960
2024	-	80,736	37,960	488,436	166,828	773,960
Thereafter	-	1,717,656	807,560	10,391,636	3,549,308	16,466,160
Total	<u>\$3,813,441</u>	<u>\$ 2,040,600</u>	<u>\$ 959,400</u>	<u>\$ 12,345,380</u>	<u>\$ 4,216,620</u>	<u>\$ 23,375,441</u>

**EAST HARLEM COUNCIL FOR HUMAN SERVICES, INC. AND AFFILIATE**  
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**NOTE 10 – LOANS PAYABLE, NET (Continued)**

Deferred costs have been capitalized and are being amortized as described below. Such costs were as follows as of June 30:

	2019	2018	Amortization Period
Financing costs	\$ 571,258	\$ 571,258	35 years
Less: accumulated amortization	(94,298)	(78,101)	
Deferred costs, net	\$ 476,960	\$ 493,157	

Amortization expense related to deferred costs amounted to \$16,197 for each of the years ended June 30, 2019 and 2018.

The estimated amortization expense for each of the ensuing fiscal years through December 1, 2048 is \$16,197 per year.

**NOTE 11 – LONG-TERM OBLIGATIONS**

**A. Subvention Agreement**

In April 2000, the Council entered into a subvention agreement with Mount Sinai NYU Health System in the amount of \$500,000. This agreement requires the Council to repay the amount borrowed in periodic payments plus interest at a base rate equal to the lesser of (i) the greater of six percent (6%) or the prime rate, as published by Citibank, N.A., plus one percent (1%) or (ii) two-thirds of the maximum interest rate authorized pursuant to Section 5-501 of the New York Obligation Laws. The payments are not required if such will jeopardize the financial well-being of the Council and as long as it continues to operate according to its mission. In March 2018, the Council gave notice of its intention to terminate, dissolve and end all current and future obligations of the parties under the subvention agreement. The parties agreed, resulting to the termination of the Council's obligation to repay the \$500,000. This is included as nonoperating revenue in the June 30, 2018 consolidated statement of activities.

**B. Operating Capital Advances**

Pursuant to the Pharmacy Management Agreement with Maxor for the management and operation of the Boriken Pharmacy (see Note 2K), Maxor provided funds for physical improvements to the pharmacy space and other startup costs (equipment and supplies, initial inventory and operating capital). In return for the initial operating capital provided by Maxor, the Council will pay Maxor \$8,333 per month during the term of the agreement until the initial operating capital has been repaid. As of June 30, 2019 and 2018, the liability due to Maxor related for operating capital advances amounted to \$291,675 and \$450,367, respectively, of which \$99,996 was included in current liabilities as of June 30, 2019 and 2018 in the accompanying consolidated statements of financial position. The liability to Maxor is expected to be repaid as follows in the fiscal years ending June 30:

Estimated repayments are as follows for the fiscal years ending June 30:

2020	\$	99,996
2021		99,996
2022		91,683
	\$	291,675

**EAST HARLEM COUNCIL FOR HUMAN SERVICES, INC. AND AFFILIATE**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 12 – PATIENT SERVICES REVENUE**

The Council recognizes patient services revenue associated with services provided to patients who have third-party payor coverage on the basis of contractual rates for services rendered. Patient services revenue for the years ended June 30, 2019 and 2018, net of contractual allowances and discounts (but before the provision for bad debts) were as follows:

	<u>2019</u>	<u>2018</u>
Medicaid	\$ 829,586	\$ 404,774
Managed care	2,311,905	2,494,170
Medicare	220,631	212,359
Commercial insurance	236,698	217,311
Self-pay	144,770	132,276
Medicaid wraparound	2,935,293	2,703,190
Uncompensated care - charity care pool	1,081,589	1,075,988
	<u>\$ 7,760,472</u>	<u>\$ 7,240,068</u>

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

**NOTE 13 – CONTRACT SERVICE REVENUE**

Contract service revenue consisted of the following as of June 30:

	<u>2019</u>	<u>2018</u>
New York City Administration for Children's Services:		
Head Start	\$ 3,417,638	\$ 3,220,362
New York State Department of Health:		
School Health Program	333,579	234,768
Women, Infants, and Children	340,009	384,898
Child and Adult Care Food Program	204,599	226,648
New York City Department for the Aging:		
Senior Nutrition Program	618,925	584,606
Other	17,073	31,155
	<u>\$ 4,931,823</u>	<u>\$ 4,682,437</u>

**NOTE 14 – DHHS GRANTS**

The Council recognized grant revenue from DHHS for the years ended June 30 as follows:

<u>Grant</u>	<u>2019</u>	<u>2018</u>
Health Center Cluster	\$ 3,088,319	\$ 3,068,194
Ryan White Part C Outpatient EIS Program	377,324	394,795
	<u>\$ 3,465,643</u>	<u>\$ 3,462,989</u>

**EAST HARLEM COUNCIL FOR HUMAN SERVICES, INC. AND AFFILIATE  
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**NOTE 15 – RETIREMENT PLANS**

Union Plans

The Council participates in a union-sponsored pension plans with 1199SEIU Healthcare Workers East (“1199 Plan”) and Local 95, DC37/1707 (“Local 95 Plan”) (collectively, “union plans”). These union plans are administered by the unions and contributions to them are set pursuant to collective bargaining agreements. The collective bargaining agreement with 1199 expires on April 30, 2024 and the collective bargaining agreement with Local 95 expires on January 31, 2022. For the years ended June 30, 2019 and 2018, approximately 52% and 39%, respectively, of the Council’s employees were members of the union plans. Pension expense for the union plans for the years ended June 30, 2019 and 2018 amounted to \$382,336 and \$355,067, respectively.

The Council’s participation in the 1199 Plan is outlined in the table below:

<u>Pension Plan</u>	<u>EIN / Pension Plan Number</u>	<u>PPA* Zone Status As of</u>		<u>FIP / RP Status Pending Implemented</u>	<u>Surcharge Imposed</u>	<u>Expiration Date Collective Bargaining Agreement</u>
		<u>1/1/2019</u>	<u>1/1/2018</u>			<u>-----</u>
1199SEIU Health Care Employees Pension Fund	13-3604862	Green	Green	RP Implemented	None	-----

The Local 95 Plan is not a multiemployer plan and the Council is not the Plan sponsor. The Council is a participating agency in the Local 95 Plan.

Defined Contribution Plan

The Council established a defined contribution 401(K) plan covering eligible employees. Employer contributions to the 401(K) plan for the years ended June 30, 2019 and 2018 amounted to \$35,014 and \$34,181, respectively, representing 2% of eligible employees’ compensation.

**NOTE 16 – CONCENTRATION OF CREDIT RISK**

Cash and cash equivalents that potentially subject the Council to a concentration of credit risk include cash accounts with banks that exceed the Federal Deposit Insurance Corporation (“FDIC”) insurance limits. Cash accounts are insured up to \$250,000 per depositor. As of June 30, 2019, there was approximately \$2.86 million of cash (including restricted deposits and funded reserves and checks outstanding) held by one bank that exceeded FDIC limits.

**NOTE 17 – COMMITMENTS AND CONTINGENCIES**

A. The Council rents certain facilities to operate its programs as described below.

The Council has entered into agreement with the Church of Our Lady of Mt. Carmel for a space located in 448 East 116th St., New York, NY for its Head Start program. The lease commenced on January 1, 2010 and ends on December 31, 2019.

The Council has an agreement with Frawley Plaza Associates LLP for space located at 30 East 111th St., New York, NY for its Head Start program. The lease ended in August 2004 and the space is currently being leased on a month-to-month basis.

**EAST HARLEM COUNCIL FOR HUMAN SERVICES, INC. AND AFFILIATE**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2019 AND 2018**

**NOTE 17 – COMMITMENTS AND CONTINGENCIES (Continued)**

The Council has an agreement with Colon Plaza Associates LLP for space located at 55 East 115th St., New York, NY for its clinic services. The lease ended on September 30, 2018 and is currently being leased on a month-to-month basis.

The Council entered into an agreement with CASABE Housing Development Fund, Inc. for the use of office space, storage space, community room and kitchen in the building located at 150 East 121<sup>st</sup> Street, New York, NY. The term of the agreement is for five years, beginning July 1, 2017 and ending June 30, 2022, for a monthly payment of \$5,000.

The approximate future minimum payments relating to the above lease agreements are as follows for fiscal years ended after June 30, 2019:

2020	\$ 139,000
2021	60,000
2022	<u>60,000</u>
	<u>\$ 259,000</u>

For the years ended June 30, 2019 and 2018, rent expense related to the above lease agreements amounted to \$363,624 and \$363,623, respectively.

- B. On November 12, 2015, the Council entered into an employment agreement with its Chief Executive Officer (“CEO”) whereby, the Council continues to employ the CEO upon the terms and conditions set forth on the employment agreement. As part of the CEO’s compensation and benefits, the Council agreed to provide a separation benefit to the CEO in an amount equal to three times the sum of the CEO’s annual base salary, to be paid in one lump-sum payment, in effect immediately prior to the CEO’s last day of employment. If the separation benefit cannot be paid in one lump-sum due to fiscal constraints at the time the payment is due, payment will be made in equal monthly installments. In case of CEO’s death, this separation benefits shall continue to be paid to the CEO’s beneficiaries and/or to the CEO’s estate. In January 2019, the Council paid the CEO’s separation benefit amounting to approximately \$1.2 million, in accordance with the employment agreement. The payment of the separation benefit was subject to excise taxes on the excess executive compensation and the excise taxes paid amounted to approximately \$170,000. Such amount is included in other expenses in the accompanying consolidated statement of functional expenses.
- C. The Council receives revenue from Medicaid, Medicare, and grants from various Federal, State and Local government agencies, all of which are subject to audit by these programs and agencies. The ultimate determination of amounts received under these programs generally is based upon allowable costs reported to and audited by these agencies. Until such audits have been completed and final settlement reached, there exist a contingency to refund any amount received in excess of allowable costs.
- D. There are various legal proceedings currently pending against the Council. While it is not feasible to predict or determine with certainty the outcome of each case, it is the opinion of management in consultation with legal counsel that the outcomes will not have a material adverse effect on the accompanying consolidated financial statements.
- E. The Council maintains its medical malpractice coverage under the Federal Tort Claims Act (“FTCA”). FTCA provides malpractice coverage to eligible Public Health Service supported programs and applies to the Council 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 Council maintains gap insurance for claims that are not covered by FTCA.
- F. The Council believes it had no uncertain tax positions as of June 30, 2019 and 2018, in accordance with Accounting Standards Codification (“ASC”) Topic 740, “Income Taxes,” which provides standards for establishing and classifying any tax provisions for uncertain tax positions.

**EAST HARLEM COUNCIL FOR HUMAN SERVICES, INC. AND AFFILIATE**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2019 AND 2018**

**NOTE 17 – COMMITMENTS AND CONTINGENCIES (Continued)**

G. In March 2020, the World Health Organization declared the outbreak of a novel coronavirus (“COVID-19”) as a pandemic, which continues to spread throughout the United States. The Council could be materially and adversely affected by the risks, or the public perception of the risks, related to an epidemic, pandemic, outbreak, or other public health crisis, such as the recent outbreak of COVID-19. The ultimate extent of the impact of any epidemic, pandemic or other health crisis on the Council’s mission, financial condition and results of operations will depend on future developments, which are highly uncertain and cannot be predicted, including new information that may emerge concerning the severity of such epidemic, pandemic or other health crisis and actions taken to contain or prevent their further spread, among others. Accordingly, the Council cannot predict the extent to which its financial condition and results of operations will be affected.

**NOTE 18 – RELATED PARTY TRANSACTIONS**

During the years ended June 30, 2019 and 2018, the Council incurred \$31,000 and \$51,000, respectively, for consulting services in the areas of public, media, intergovernmental, and community relations rendered by a relative of a member of management. Such amounts are included in consultants and contractors in the accompanying consolidated statements of functional expenses.

**NOTE 19 – RECLASSIFICATIONS**

The Council’s consolidated statement of functional expenses for the year ended June 30, 2018 reported the program expenses of BLDC in a separate column called “Building and Facilities”. For the year ended June 30, 2019, the costs of providing BLDC’s activities were allocated to the “Clinic Services” and “Women, Infants and Children” programs and management and general and in the consolidated statement of functional expenses. The consolidated financial statements for the year ended June 30, 2018 were restated to conform to the current year presentation as it relates to BLDC’s functional expenses. This change had no effect on the Council’s consolidated net assets.

**NOTE 20 – SUBSEQUENT EVENTS**

Management has evaluated for potential recognition and disclosure events subsequent to the date of the consolidated statement of financial position through May 14, 2020, the date the consolidated financial statements were available to be issued.

On March 27, 2020, in response to COVID-19, the federal government passed the Coronavirus Aid, Relief, and Economic Stability Act (“CARES Act”). Among many other provisions, to help businesses retain employees, the CARES Act provides relief to qualifying businesses through a program called the Paycheck Protection Program (“PPP”). Participating in the PPP enables the business to obtain a loan from the Small Business Administration sector of the government. The maximum loan amount is equal to the lesser of (a) 2.5 times the entity’s average monthly payroll costs, as defined and incurred during the one-year period before the date on which the loan is made; or (b) \$10 million. The term of the loan is two years and bears interest at a fixed rate of 1% per annum. If the proceeds from the loan are used for specified purposes, some or all of the loan can be forgiven, based on how much is spent in the eight week period immediately following funding of the loan times a forgiveness factor that is based on employee headcount and amounts paid to the Company’s employees. The Council applied for this loan through an SBA authorized lender. On May 4, 2020, the loan was approved for approximately \$2.21 million.

**EAST HARLEM COUNCIL FOR HUMAN SERVICES, INC. AND AFFILIATE**  
**CONSOLIDATING STATEMENTS OF FINANCIAL POSITION**  
**AS OF JUNE 30, 2019 AND 2018**

	As of June 30, 2019				As of June 30, 2018			
	East Harlem Council for Human Services, Inc.	Boriken Local Development Corporation	Consolidating Eliminations	Consolidated Total 2019	East Harlem Council for Human Services,	Boriken Local Development Corporation	Consolidating Eliminations	Consolidated Total 2018
<b>ASSETS</b>								
Current assets								
Cash	\$ 3,177,010	\$ 72,316	\$ -	\$ 3,249,326	\$ 4,655,585	\$ 75,115	\$ -	\$ 4,730,700
Patient services receivable, net	701,581	-	-	701,581	408,647	-	-	408,647
Contracts receivable	457,361	-	-	457,361	253,531	-	-	253,531
340B pharmacy receivable	387,340	-	-	387,340	530,100	-	-	530,100
Restricted deposits and funded reserves	109,064	86,225	-	195,289	109,064	127,918	-	236,982
Other current assets	363,017	-	-	363,017	225,003	-	-	225,003
Total current assets	<u>5,195,373</u>	<u>158,541</u>	<u>-</u>	<u>5,353,914</u>	<u>6,181,930</u>	<u>203,033</u>	<u>-</u>	<u>6,384,963</u>
Noncurrent assets								
Property and equipment, net	1,220,229	19,323,085	-	20,543,314	1,319,189	19,874,612	-	21,193,801
Loan receivable	14,385,980	-	-	14,385,980	14,385,980	-	-	14,385,980
Other assets	21,101	2,838,681	(2,838,681)	21,101	22,708	2,337,737	(2,337,737)	22,708
Total noncurrent assets	<u>15,627,310</u>	<u>22,161,766</u>	<u>(2,838,681)</u>	<u>34,950,395</u>	<u>15,727,877</u>	<u>22,212,349</u>	<u>(2,337,737)</u>	<u>35,602,489</u>
<b>TOTAL ASSETS</b>	<u>\$ 20,822,683</u>	<u>\$ 22,320,307</u>	<u>\$ (2,838,681)</u>	<u>\$ 40,304,309</u>	<u>\$ 21,909,807</u>	<u>\$ 22,415,382</u>	<u>\$ (2,337,737)</u>	<u>\$ 41,987,452</u>
<b>LIABILITIES</b>								
Current liabilities								
Accounts payable and accrued expenses	\$ 1,003,621	\$ 17,630	\$ -	\$ 1,021,251	\$ 589,364	\$ 17,630	\$ -	\$ 606,994
Accrued compensation	587,418	-	-	587,418	571,132	-	-	571,132
Due to funding agencies	60,404	-	-	60,404	660,631	-	-	660,631
Operating capital advances	99,996	-	-	99,996	99,996	-	-	99,996
Total current liabilities	<u>1,751,439</u>	<u>17,630</u>	<u>-</u>	<u>1,769,069</u>	<u>1,921,123</u>	<u>17,630</u>	<u>-</u>	<u>1,938,753</u>
Noncurrent liabilities								
Deferred rent	2,838,681	-	(2,838,681)	-	2,337,737	-	(2,337,737)	-
Loans payable, net	3,813,441	19,085,040	-	22,898,481	3,813,441	19,068,843	-	22,882,284
Long-term obligation - operating capital advances	191,679	-	-	191,679	350,371	-	-	350,371
Total noncurrent liabilities	<u>6,843,801</u>	<u>19,085,040</u>	<u>(2,838,681)</u>	<u>23,090,160</u>	<u>6,501,549</u>	<u>19,068,843</u>	<u>(2,337,737)</u>	<u>23,232,655</u>
<b>TOTAL LIABILITIES</b>	<u>8,595,240</u>	<u>19,102,670</u>	<u>(2,838,681)</u>	<u>24,859,229</u>	<u>8,422,672</u>	<u>19,086,473</u>	<u>(2,337,737)</u>	<u>25,171,408</u>
<b>NET ASSETS</b>								
Without donor restrictions	12,227,443	3,217,637	-	15,445,080	13,487,135	3,328,909	-	16,816,044
<b>TOTAL NET ASSETS</b>	<u>12,227,443</u>	<u>3,217,637</u>	<u>-</u>	<u>15,445,080</u>	<u>13,487,135</u>	<u>3,328,909</u>	<u>-</u>	<u>16,816,044</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 20,822,683</u>	<u>\$ 22,320,307</u>	<u>\$ (2,838,681)</u>	<u>\$ 40,304,309</u>	<u>\$ 21,909,807</u>	<u>\$ 22,415,382</u>	<u>\$ (2,337,737)</u>	<u>\$ 41,987,452</u>

**EAST HARLEM COUNCIL FOR HUMAN SERVICES, INC. AND AFFILIATE  
CONSOLIDATING STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2019**

	<b>East Harlem Council for Human Services, Inc.</b>	<b>Boriken Local Development Corporation</b>	<b>Consolidating Eliminations</b>	<b>Consolidated Total</b>
<b>OPERATING REVENUE AND SUPPORT:</b>				
Patient services revenue (net of contractual allowances and discounts)	\$ 7,760,472	\$ -	\$ -	\$ 7,760,472
Provision for bad debts	<u>(322,793)</u>	<u>-</u>	<u>-</u>	<u>(322,793)</u>
Patient services revenue, net of provision for bad debts	7,437,679	-	-	7,437,679
Contract service revenue	4,931,823	-	-	4,931,823
U.S. Department of Health and Human Services grants	3,465,643	-	-	3,465,643
Meaningful use incentive payments	85,000	-	-	85,000
Donated facilities, medical supplies and services	1,736,131	-	-	1,736,131
Rental revenue	-	648,944	(648,944)	-
340B pharmacy revenue	3,917,928	-	-	3,917,928
Other revenue	<u>398,572</u>	<u>-</u>	<u>-</u>	<u>398,572</u>
<b>TOTAL OPERATING REVENUE AND SUPPORT</b>	<u>21,972,776</u>	<u>648,944</u>	<u>(648,944)</u>	<u>21,972,776</u>
<b>OPERATING EXPENSES:</b>				
Program Services:				
Clinic Services	15,332,537	477,102	(648,944)	15,160,695
Headstart	5,156,089	-	-	5,156,089
Senior Nutrition	650,865	-	-	650,865
Women, Infants and Children	<u>362,836</u>	<u>28,484</u>	<u>-</u>	<u>391,320</u>
<b>Total Program Services</b>	21,502,327	505,586	(648,944)	21,358,969
Management and general	<u>1,879,908</u>	<u>255,188</u>	<u>-</u>	<u>2,135,096</u>
<b>TOTAL OPERATING EXPENSES</b>	<u>23,382,235</u>	<u>760,774</u>	<u>(648,944)</u>	<u>23,494,065</u>
<b>Operating Loss</b>	<u>(1,409,459)</u>	<u>(111,830)</u>	<u>-</u>	<u>(1,521,289)</u>
<b>Non-operating Revenue</b>				
Interest income	<u>149,767</u>	<u>558</u>	<u>-</u>	<u>150,325</u>
<b>Non-operating Revenue</b>	<u>149,767</u>	<u>558</u>	<u>-</u>	<u>150,325</u>
<b>CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS</b>	(1,259,692)	(111,272)	-	(1,370,964)
<b>Net Assets Without Donor Restrictions - Beginning of Year</b>	<u>13,487,135</u>	<u>3,328,909</u>	<u>-</u>	<u>16,816,044</u>
<b>NET ASSETS WITHOUT DONOR RESTRICTIONS - END OF YEAR</b>	<u>\$ 12,227,443</u>	<u>\$ 3,217,637</u>	<u>\$ -</u>	<u>\$ 15,445,080</u>



**EAST HARLEM COUNCIL FOR HUMAN SERVICES, INC. AND AFFILIATE  
CONSOLIDATING STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2018**

	<b>East Harlem Council for Human Services, Inc.</b>	<b>Boriken Local Development Corporation</b>	<b>Consolidating Eliminations</b>	<b>Consolidated Total</b>
<b>OPERATING REVENUE AND SUPPORT:</b>				
Patient services revenue (net of contractual allowances and discounts)	\$ 7,240,068	\$ -	\$ -	\$ 7,240,068
Provision for bad debts	(568,697)	-	-	(568,697)
Patient services revenue, net of provision for bad debts	6,671,371	-	-	6,671,371
Contract service revenue	4,682,437	-	-	4,682,437
U.S. Department of Health and Human Services grants	3,462,989	-	-	3,462,989
Meaningful use incentive payments	376,309	-	-	376,309
Donated facilities, medical supplies and services	1,675,882	-	-	1,675,882
Rental revenue	-	648,944	(648,944)	-
340B pharmacy revenue	2,721,535	-	-	2,721,535
Other revenue	279,479	-	-	279,479
<b>TOTAL OPERATING REVENUE AND SUPPORT</b>	<b>19,870,002</b>	<b>648,944</b>	<b>(648,944)</b>	<b>19,870,002</b>
<b>OPERATING EXPENSES:</b>				
Program Services:				
Clinic Services	11,120,434	477,102	(648,944)	10,948,592
Headstart	4,914,352	-	-	4,914,352
Senior Nutrition	608,732	-	-	608,732
Women, Infants and Children	385,280	28,484	-	413,764
<b>Total Program Services</b>	<b>17,028,798</b>	<b>505,586</b>	<b>(648,944)</b>	<b>16,885,440</b>
Management and general	2,147,419	255,159	-	2,402,578
<b>TOTAL OPERATING EXPENSES</b>	<b>19,176,217</b>	<b>760,745</b>	<b>(648,944)</b>	<b>19,288,018</b>
<b>Operating Income (Loss)</b>	<b>693,785</b>	<b>(111,801)</b>	<b>-</b>	<b>581,984</b>
<b>Non-operating Revenue</b>				
Gain on termination of long-term obligation under subvention agreement	500,000	-	-	500,000
Interest income	147,569	240	-	147,809
<b>Non-operating Revenue</b>	<b>647,569</b>	<b>240</b>	<b>-</b>	<b>647,809</b>
<b>CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS</b>	<b>1,341,354</b>	<b>(111,561)</b>	<b>-</b>	<b>1,229,793</b>
<b>Net Assets Without Donor Restrictions - Beginning of Year</b>	<b>12,145,781</b>	<b>3,440,470</b>	<b>-</b>	<b>15,586,251</b>
<b>NET ASSETS WITHOUT DONOR RESTRICTIONS - END OF YEAR</b>	<b>\$ 13,487,135</b>	<b>\$ 3,328,909</b>	<b>\$ -</b>	<b>\$ 16,816,044</b>

**EAST HARLEM COUNCIL FOR HUMAN SERVICES, INC.  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2019**

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass Through Entity Identifying Number</u>	<u>Federal Expenditures</u>	<u>Amounts Provided to Subrecipients</u>
U.S. Department of Health and Human Services				
Health Center Program Cluster:				
Health Center Program	93.224	N/A	\$ 865,451	\$ -
Grants for New and Expanded Services Under the Health Center Program	93.527	N/A	<u>2,222,868</u>	<u>-</u>
Total Health Center Program Cluster			<u>3,088,319</u>	<u>-</u>
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918	N/A	<u>377,324</u>	<u>-</u>
Passed through New York City Administration for Children Services Head Start	93.600	CT106820171402661	<u>2,326,780</u>	<u>-</u>
Passed through the New York City Department of Health and Mental Hygiene Immunization Cooperative Agreements	93.268	Not available	<u>243,839</u>	<u>-</u>
Passed through New York City Department for the Aging Aging Cluster:				
Special Programs For the Aging- Title III, Part B - Grants For Supportive Services and Senior Centers	93.044	20171401116	11,287	-
Special Programs For the Aging - Title III, Part C- Nutrition Services	93.045	20171401116	86,371	-
Nutrition Services Incentive Program	93.053	20171401116	<u>16,615</u>	<u>-</u>
Total Aging Cluster			<u>114,273</u>	<u>-</u>
Social Services Block Grant	93.667	20171401116	<u>71,750</u>	<u>-</u>
Passed through the New York State Department of Health Maternal and Child Health Services Block Grant to the States	93.994	C32389GG	<u>133,644</u>	<u>-</u>
Total U.S. Department of Health and Human Services			<u>6,355,929</u>	<u>-</u>
U.S Department of Agriculture				
Passed through the New York State Department of Health Child and Adult Care Food Program	10.558	3021	204,599	-
WIC Special Supplemental Nutrition Program for Women, Infants and Children	10.557	C30453GG	<u>958,121</u>	<u>-</u>
Total U.S. Department of Agriculture			<u>1,162,720</u>	<u>-</u>
<b>AMOUNTS PROVIDED TO SUBRECIPIENTS</b>				<b>\$ -</b>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<b><u>\$ 7,518,649</u></b>	

**EAST HARLEM COUNCIL FOR HUMAN SERVICES, INC.  
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2019**

**NOTE 1 – BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards (the “Schedule”) includes the federal award activity of East Harlem Council for Human Services, Inc. (“EHCHS”) under programs of the federal government for the year ended June 30, 2019. The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the “Uniform Guidance”). Because the Schedule presents only a selected portion of the operations of EHCHS, it is not intended to and does not present the consolidated financial position, changes in net assets, or cash flows of EHCHS.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or limited as to reimbursement.

**NOTE 3 – INDIRECT COST RATES**

EHCHS has elected not to use the 10 percent *de minimis* indirect cost rate as allowed under the Uniform Guidance.

**NOTE 4 – NONMONETARY ASSISTANCE**

Donated vaccines are reported in the Schedule at the fair value of vaccines received. The total federal share of vaccines distributed by EHCHS amounted to \$243,839 for the year ended June 30, 2019 and is included in the consolidated statement of activities. It is also included in the Schedule.

EHCHS also receives food checks as part of the Special Supplemental Nutrition Program for Women, Infants and Children, whereby the grantor generates the food checks to be distributed by EHCHS to the recipients. These food checks are not included in the consolidated statements of activities since they are agency transactions. The fair value of the checks received and transferred by EHCHS amounted to \$620,832 for the year ended June 30, 2019 and is included in the Schedule.

**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**

The Board of Directors of  
East Harlem Council for Human Services, Inc. and Affiliate

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of East Harlem Council for Human Services, Inc. and Affiliate (the "Council") which comprise the consolidated statements of financial position as of June 30, 2019 and 2018, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated May 14, 2020.

**Internal Control Over Financial Reporting**

In planning and performing our audits of the consolidated financial statements, we considered the Council's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal control. Accordingly, we do not express an opinion on the effectiveness of the Council'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 first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audits we did not identify any deficiencies in internal control that we consider to be material weaknesses.

**Compliance and Other Matters**

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

## Purpose of this Report

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

*Marks Paneth LLP*

New York, NY  
May 14, 2020

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

The Board of Directors of  
East Harlem Council for Human Services, Inc.

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

We have audited East Harlem Council for Human Services, Inc.'s ("EHCHS") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of EHCHS' major federal programs for the year ended June 30, 2019. EHCHS' major federal 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 federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

***Auditors' Responsibility***

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

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

***Opinion on Each Major Federal Program***

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

## Report on Internal Control Over Compliance

Management of EHCHS 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 EHCHS' internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of EHCHS' internal control over compliance.

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

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

### Purpose of this Report

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



New York, NY  
May 14, 2020

**EAST HARLEM COUNCIL FOR HUMAN SERVICES, INC.  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2019**

**Section I—Summary of Auditors' Results**

**Consolidated Financial Statements**

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

Material weaknesses identified? \_\_\_\_\_ Yes   X   No

Significant deficiencies identified not considered  
to be material weaknesses? \_\_\_\_\_ Yes   X   None reported

Noncompliance material to financial statements noted? \_\_\_\_\_ Yes   X   No

**Federal Awards**

Internal control over major programs:

Material weaknesses identified? \_\_\_\_\_ Yes   X   No

Significant deficiencies identified not considered  
to be material weaknesses? \_\_\_\_\_ Yes   X   None reported

Type of auditors' report issued on compliance  
for major programs: Unmodified

Any audit findings disclosed that are required  
to be reported in accordance with Uniform Guidance \_\_\_\_\_ Yes   X   No

Identification of major programs:

U.S. Department of Health and Human Services:

- CFDA #93.600 - Head Start

U.S. Department of Agriculture:

- CFDA # 10.557 – WIC Special Supplemental Nutrition Program  
for Women, Infants and Children

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

Auditee qualified as low-risk auditee?   X   Yes \_\_\_\_\_ No

**Section II—Financial Statement Findings**

No matters were reported.

**Section III—Federal Award Findings and Questioned Costs**

No matters were reported.



**EAST HARLEM COUNCIL FOR HUMAN SERVICES, INC.  
SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2019**

**PRIOR YEAR FINDINGS:**

No matters were reported.

### **Reasons for delayed filing of Single audit submission**

The Single Audit report for East Harlem Council for Human Services, Inc. (the "Council") was due on March 31, 2020. On March 19, 2020, the Office of Management and Budget ("OMB") issued Memorandum M-20-17, Administrative Relief for Recipients and Applicants of Federal Financial Assistance Directly Impacted by the Novel Coronavirus (COVID-19) due to Loss of Operations. This memorandum provides short term relief for administrative, financial management, and audit requirements under 2 CFR Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards. Included in this memorandum is an extension of the Single Audit submission deadlines, for those recipients and subrecipients that have not yet filed their single audits with the Federal Audit Clearinghouse as of the date of the issuance of the memorandum that have fiscal year-ends through June 30, 2020, to delay the completion and submission of the Single Audit reporting package, as required under Subpart F of 2 CFR § 200.501 - Audit Requirements, to six (6) months beyond the normal due date.

The Council's auditors Marks Paneth LLP is in New York City which is the epic center of COVID 19. Marks Paneth offices were closed since March 17, 2020 with its employees working remotely. Due to this, the auditors were not able to complete the audit and SFSAC forms before the original due date of March 31, 2020. Therefore, the Council is taking advantage of the six-month extension provided under Memorandum M-20-17.