

Morris Heights Health Center, Inc. and Subsidiaries

**Consolidated Financial Statements
(With Supplementary Information)
Schedule of Expenditures of Federal Awards,
Internal Control and Compliance
and Independent Auditor's Reports**

June 30, 2019

Morris Heights Health Center, Inc. and Subsidiaries

Index

	<u>Page</u>
Independent Auditor's Report	2
Financial Statements	
Consolidated Statement of Financial Position	4
Consolidated Statement of Activities and Changes in Net Assets and Equity	5
Consolidated Statement of Functional Expenses	6
Consolidated Statement of Cash Flows	7
Notes to Consolidated Financial Statements	8
Supplementary Information	
Consolidating Statement of Financial Position	24
Consolidating Statement of Activities and Changes in Net Assets and Equity	25
Schedule of Expenditures of Federal Awards	26
Notes to Schedule of Expenditures of Federal Awards	27
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	28
Independent Auditor's Report on Compliance for Each Major Federal Program and on Internal Control over Compliance Required by the Uniform Guidance	30
Schedule of Findings and Questioned Costs	32

Independent Auditor's Report

To the Board of Directors
Morris Heights Health Center, Inc.

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Morris Heights Health Center, Inc. and Subsidiaries (the "Company"), which comprise the consolidated statement of financial position as of June 30, 2019, and the related consolidated statements of activities and changes in net assets and equity, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our 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. The financial statements of MHHC Developers, LLC, Morris Heights Senior Housing Development Fund Company, Inc., Harrison Circle Development Corporation and MHHC Foundation, Inc. were not audited in accordance with *Government Auditing Standards*.

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 Company'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 Company'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 the Company as of June 30, 2019, and the changes in its net assets and equity and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information included in the accompanying statements on pages 24 and 25 are presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position and the changes in net assets and equity of the individual organizations, and is not a required part of the consolidated financial statements. The accompanying schedule of expenditures of federal awards on page 26, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 18, 2019, on our consideration of the Company'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 Company'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 Company's internal control over financial reporting and compliance.



New York, New York
November 18, 2019

Morris Heights Health Center, Inc. and Subsidiaries

**Consolidated Statement of Financial Position
June 30, 2019**

Assets

Current assets	
Cash and cash equivalents	\$ 11,577,629
Patient services receivable, net	2,526,515
DHHS grants receivable	1,241,459
Contracts receivable	4,380,516
Due from related party	1,087,492
340B pharmacy receivable	1,363,033
Investments	27,896,232
Certificates of deposit, at cost	247,170
Prepaid expenses and other current assets	602,186
Total current assets	50,922,232
Security deposits	242,194
Cash limited as to use	257,114
Investment in Harrison Circle, LP	1,662,798
Developer's fee receivable	181,475
Purchase money mortgage receivable - related party	615,000
Purchase money mortgage receivable - interest receivable	426,591
Property and equipment, net	32,320,734
Total assets	\$ 86,628,138

Liabilities and Net Assets and Equity

Current liabilities	
Accounts payable and accrued expenses	\$ 2,772,862
Accrued compensation	2,114,132
Due to related parties	11,398
Current maturities of capital lease obligations	514,726
Total current liabilities	5,413,118
Capital lease obligations, less current maturities	175,000
Other liabilities	127,488
Total liabilities	5,715,606
Commitments and contingencies	
Net assets without donor restrictions	
Undesignated	94,659,646
Board-designated for capital and special projects	257,114
Total net assets without donor restrictions	94,916,760
Net assets with donor restrictions	33,310
Equity	(14,037,538)
Total net assets and equity	80,912,532
Total net assets, equity and noncontrolling interest in subsidiary	80,912,532
Total liabilities and net assets and equity	\$ 86,628,138

See Notes to Consolidated Financial Statements.

Morris Heights Health Center, Inc. and Subsidiaries

**Consolidated Statement of Activities and Changes in Net Assets and Equity
Year Ended June 30, 2019**

Revenue without donor restrictions	
Patient services, net	\$ 39,349,664
Provision for bad debt	<u>(1,904,512)</u>
Net patient services revenue net of provision for bad debt	37,445,152
DHHS grants	8,041,325
Contract services	11,169,484
340B pharmacy	14,380,333
In-kind contributions - donated vaccines	2,351,435
Meaningful use incentive	51,000
Investment return, net	405,888
Released from restrictions	40,000
Other income	<u>1,331,020</u>
Total revenue without donor restrictions	<u>75,215,637</u>
Expenses	
Salaries and benefits	41,641,190
Other than personnel services	27,824,333
Interest expense	<u>165,425</u>
Total expenses	<u>69,630,948</u>
Operating income prior to depreciation and amortization and nonoperating revenue	5,584,689
Depreciation and amortization	<u>2,729,201</u>
Operating income prior to nonoperating revenue	<u>2,855,488</u>
Nonoperating revenue	
Gain in noncontrolling interest in subsidiary	61,474
Capital DHHS grants	480,682
Capital contract services	<u>1,929,696</u>
Total nonoperating revenue	<u>2,471,852</u>
Change in net assets without donor restrictions	<u>5,327,340</u>
Changes in net assets with donor restrictions	
Released to operations	<u>(40,000)</u>
Decrease in net assets with donor restrictions	<u>(40,000)</u>
Change in consolidated net assets	5,287,340
Net assets and equity, beginning	<u>75,625,192</u>
Net assets and equity, ending	<u><u>\$ 80,912,532</u></u>

See Notes to Consolidated Financial Statements.

Morris Heights Health Center, Inc. and Subsidiaries

**Consolidated Statement of Functional Expenses
Year Ended June 30, 2019**

	Program services	General and administrative	Fundraising	Total
Salaries and wages	\$ 25,566,268	\$ 8,628,993	\$ -	\$ 34,195,261
Fringe benefits	5,566,988	1,878,941	-	7,445,929
Laboratory	404,274	-	-	404,274
Professional and contractual services	2,532,397	2,603,912	-	5,136,309
Travel, conferences and meetings	111,489	152,963	-	264,452
Occupancy	1,886,159	135,404	-	2,021,563
Security	538,397	-	-	538,397
Telephone	592,699	323,721	-	916,420
Insurance	45,285	217,407	-	262,692
Consumable supplies	3,227,644	217,969	-	3,445,613
Pharmaceuticals	9,230,299	-	-	9,230,299
Repairs and maintenance	825,060	254,585	-	1,079,645
Equipment rental	271,576	42,170	-	313,746
Publications, subscriptions and membership fees	58,555	221,024	-	279,579
Recruitment costs	11,474	58,633	-	70,107
Postage and messengers	7,405	69,990	-	77,395
Interest	105,463	59,962	-	165,425
In-kind donated expenses	2,350,093	-	-	2,350,093
Bad debt expense	1,088,096	-	23,028	1,111,124
Other	43,137	93,276	186,212	322,625
Total	54,462,758	14,958,950	209,240	69,630,948
Depreciation and amortization	1,373,253	1,355,948	-	2,729,201
Total functional expenses	\$ 55,836,011	\$ 16,314,898	\$ 209,240	\$ 72,360,149

See Notes to Consolidated Financial Statements.

Morris Heights Health Center, Inc. and Subsidiaries

**Consolidated Statement of Cash Flows
Year Ended June 30, 2019**

Cash flows from operating activities	
Cash received from DHHS grants	\$ 7,704,165
Cash received from patient services	38,268,329
Cash received from contract services	11,599,127
Cash received from 340B pharmacy	14,008,398
Cash received from meaningful use	51,000
Cash received from interest income	70,151
Cash received from other income	3,197,978
Cash paid to employees	(41,654,594)
Cash paid to vendors	(25,722,546)
Cash paid for interest	(165,425)
	<hr/>
Net cash provided by operating activities	7,356,583
	<hr/>
Cash flows from investing activities	
Purchase of property and equipment	(2,619,250)
Purchase of investments	(43,999,595)
Proceeds from sale of investments	19,687,396
Redemption of certificates of deposit	4,420,786
	<hr/>
Net cash used in investing activities	(22,510,663)
	<hr/>
Cash flows from financing activities	
Cash paid for security deposits	(6,002)
Cash limited as to use	(257,114)
Payment of capital lease obligation	(714,981)
Receipt of nonoperating capital contract services and DHHS grants	1,027,209
	<hr/>
Net cash provided by financing activities	49,112
	<hr/>
Net decrease in cash and cash equivalents	(15,104,968)
	<hr/>
Cash and cash equivalents, beginning	26,682,597
	<hr/>
Cash and cash equivalents, end	\$ 11,577,629
	<hr/>
Supplemental disclosure of noncash investing activity	
Capital acquisitions included in accounts payable and accrued expenses	\$ 69,900
	<hr/>

See Notes to Consolidated Financial Statements.

Morris Heights Health Center, Inc. and Subsidiaries

Notes to Consolidated Financial Statements June 30, 2019

Note 1 - Organization and summary of significant accounting policies

Morris Heights Health Center, Inc. (the "Center") received its incorporation documents under the Not-For-Profit Corporation Law of New York State in November 1984. The Center is exempt from income tax under Section 501(c)(3) of the Internal Revenue Code (the "Code") and is organized under Article 28 of the New York Public Health Law.

The Center operates an ambulatory healthcare facility that provides comprehensive healthcare services to the residents of the southwest Bronx, New York. The Center is funded primarily through government grants, program services contracts and Health Maintenance Organization ("HMO") contracts.

MHHC Developers, LLC ("Developers") is a limited liability company formed under Section 203 of the Limited Liability Company Law of the State of New York on October 8, 2009. The members of Developers are the Center, whose membership interest equals 90%, and the MHHC Foundation, Inc. (the "Foundation") with a 10% membership interest. The Center is the managing member of Developers.

Morris Heights Senior Housing Development Fund Company, Inc. ("HDFC") was formed under Section 402 of the Not-For-Profit Corporation Law and Article XI of the Private Housing Finance Law on October 25, 2005. HDFC was organized exclusively for the purpose of providing housing accommodations for persons and families of low income. The Center is the sole member of HDFC. HDFC is exempt from income tax under Section 501(c)(3) of the Code.

Harrison Circle Development Corp. ("HCDC") is a C corporation of which HDFC is the sole shareholder. HCDC is the General Partner of Harrison Circle, LP (the "Partnership"), a limited partnership under the Revised Uniform Limited Partnership Act of the State of New York and was formed on July 16, 2006. Under the terms of the Limited Partnership Agreement, HCDC has a .01% ownership interest and the Limited Partner is EHP XV Investor, L.P., which has a 99.99% ownership interest.

The Foundation was formed under Section 402 of the Not-For-Profit Corporation Law of New York State in May 1985. The Foundation is exempt from income tax under Section 501(c)(3) of the Code. In January 2017, the Foundation's by-laws were amended and the Center became the sole corporate member of the Foundation. The amended by-laws also allow the Center to appoint a majority of the board members of the Foundation. Accordingly, on January 26, 2017, three members of the current MHHC Board were elected to the Foundation's Board and two independent directors were also elected to the Foundation's Board. The Foundation was formed to achieve the basic objective of delivering health care to the community surrounding the Center. The Foundation expects to contribute funds to the Center to assist it in its operations.

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

Basis of presentation

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America.

Morris Heights Health Center, Inc. and Subsidiaries

Notes to Consolidated Financial Statements June 30, 2019

The consolidated financial statements include the accounts of the Center, Developers, HDFC, HCDC and the Foundation (collectively, the "Company"). All significant intercompany transactions and account balances have been eliminated in consolidation.

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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Classification of net assets

The Company's consolidated financial statements present information regarding the Company's financial position and activities according to two classes of net assets.

Net assets without donor restrictions are net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Company. Net assets without donor restrictions include resources that the governing board may use for any designated purpose and resources whose use is limited by agreement between the Company and an outside party other than a donor or grantor.

From time to time, the Board designates net assets without donor restrictions for special projects. As of June 30, 2019, \$257,114 of net assets were designated by the board for capital and for special projects, i.e., the Summer Youth Program. Cash restricted for capital amounting to \$257,114 is presented in the consolidated statement of financial position as cash limited as to use.

Net assets with donor restrictions are net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Corporation or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Donor-restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statement of activities and changes in net assets.

As of June 30, 2019, the Foundation had net assets with donor restrictions amounting to \$33,310.

Cash and cash equivalents

The Company maintains its cash and cash equivalents in bank deposit accounts which, at times, may exceed federally-insured limits. The Company has not experienced any losses in such accounts. All highly liquid investments with maturities of three months or less when purchased are considered to be cash equivalents.

The Company's bank deposits exceeded Federal Deposit Insurance Corporation limits at various times during the year ended June 30, 2019.

Patient services receivable and concentration of credit risk

The collection of receivables from third-party payors and patients is the Center's primary source of cash for operations and is critical to its operating performance. The primary collection risks relate to uninsured patient accounts and patient accounts for which the primary insurance payor has paid, but patient responsibility amounts (deductibles and copayments) remain outstanding. Patient

Morris Heights Health Center, Inc. and Subsidiaries

Notes to Consolidated Financial Statements June 30, 2019

receivables from third-party payors are carried at a net amount determined by the original charge for the service provided, less an estimate made for contractual adjustments or discounts provided to third-party payors.

Receivables due directly from patients are carried at the original charge for the service provided less discounts provided under the Center's charity care policy, less amounts covered by third-party payors and less an estimated allowance for doubtful receivables. Management determines the allowance for doubtful accounts by identifying troubled accounts and by historical experience applied to an aging of accounts. The Center considers accounts past due when they are outstanding beyond 60 days with no payment. The Center generally does not charge interest on past due accounts. Patient receivables are written off against the allowance for doubtful accounts when deemed uncollectible. Recoveries of receivables previously written off are recorded as a reduction of bad debt expense when received.

Contracts receivable

Contracts receivable consists of costs under the grant and contract agreements which were incurred prior to year-end for which payment has not been received. Contracts receivable credit risk is limited due to the nature of the contracts. The Center regularly monitors its contracts receivable by investigating delayed payments and differences when payments do not conform to the amount billed. The Center considers all contracts as collectible.

Investments

Investments are recorded in the accompanying consolidated financial statements at fair value, which have been determined using quoted market prices. Net realized and unrealized gains and losses are reflected in revenue in the consolidated statement of activities.

Certificates of deposit, at cost

Certificates of deposits represent savings certificates with a fixed maturity date and a specified fixed interest rate. Certificates of deposit are carried at cost plus accrued interest, which approximates fair value.

Property and equipment

The Company records property and equipment at cost net of accumulated depreciation and amortization. Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets, which range from 3 to 40 years. Leasehold improvements are amortized on a straight-line basis over the estimated useful life of the improvements or the term of the lease, whichever is less. The Company capitalizes all purchases of property and equipment in excess of \$5,000.

Construction-in-progress is recorded at cost. The Center capitalizes construction, insurance, interest and other costs during the period of construction. Depreciation is recorded when construction has been substantially complete and the assets are placed in service.

Equipment under capital leases is recorded in property and equipment with corresponding obligations carried in short- and long-term liabilities. The amount capitalized is the lower of the present value of the minimum lease payments or the fair value of the leased asset.

Amortization on assets leased under capital leases is recorded on a straight-line basis over the estimated useful life of the asset or the term of the lease, whichever is the lesser.

Morris Heights Health Center, Inc. and Subsidiaries

Notes to Consolidated Financial Statements June 30, 2019

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

Impairment of long-lived assets

The Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In performing a review for impairment, the Company compares the carrying value of the assets with their estimated future undiscounted cash flows. If it is determined that impairment has occurred, the loss would be recognized during that period. The impairment loss is calculated as the difference between the asset carrying values giving consideration to recent operating performance and pricing trends. The Company does not believe that any material impairment currently exists related to its long-lived assets.

Patient services revenue

The Center has agreements with third-party payors that provide for payments to the Center 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 final settlements are determined.

The Center provides care to certain patients under Medicaid and Medicare payment arrangements. Laws and regulations governing the Medicaid and Medicare programs are complex and subject to interpretation. Compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action. Self-pay revenue is recorded at published charges with charitable allowances based on a sliding fee scale deducted to arrive at net self-pay revenue before provision for bad debts.

Charity care and community benefit

The Center is open to all patients, regardless of their ability to pay. In the ordinary course of business, the Center renders services to patients who are financially unable to pay for healthcare. The Center provides care to these patients who meet certain criteria under its sliding fee discount policy without charge or at amounts less than the established rates. Charity care services are computed using a sliding fee scale based on patient income and family size. The Center maintains records to identify and monitor the level of sliding fee discount it provides. For uninsured self-pay 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.

Community benefit represents the cost of services for Medicaid, Medicare, and other public patients that the Center is not reimbursed for.

Based on the cost of patient services, charity care approximated \$2,988,000 and community benefit approximated \$9,347,000 for the year ended June 30, 2019.

Morris Heights Health Center, Inc. and Subsidiaries

Notes to Consolidated Financial Statements June 30, 2019

Grants and contracts

Revenue from government grants and contracts designated for use in specified activities is recognized in the period when expenditures have been incurred in compliance with the grantor's requirements. Grant and contract awards for the acquisition of long-lived assets are reported as unrestricted nonoperating revenue, in the absence of donor stipulations to the contrary, during the fiscal year in which the assets are acquired. Cash received in excess of revenue recognized is recorded as refundable advances. At June 30, 2019, the Company has received conditional grants and contracts from governmental entities in the aggregate amount of \$19,033,127 that have not been recorded in these consolidated financial statements as they have not been earned. These grants and contracts require the Company to provide certain healthcare services during specified periods. If such services are not provided during the specified periods, the governmental entities are not obligated to expend the funds allotted under the grants and contracts.

Contributions

Contributions are recorded as either without donor restrictions or with donor restrictions if they are received with donor stipulations that limit the use of the donated asset. Contributions received with no donor stipulations are recorded as unrestricted revenue. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified as net assets without donor restrictions and are reported in the consolidated statement of activities as net assets released from restriction. Donor-restricted contributions whose restrictions expire during the same fiscal year are recognized as unrestricted revenue.

In-kind contributions

The Company records donated items at fair value. During the year ended June 30, 2019, the Company received \$2,351,435 of vaccines which are recorded in the consolidated statement of activities as both revenue and expense.

Interest earned on federal funds

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

Functional expenses

The cost of providing the various services and other activities has been summarized on a functional basis in the consolidated statement of functional expenses. Expenses are charged to program or general and administrative based on a combination of specific identification and allocation basis determined by management. Natural expenses attributable to more than one functional expense category are allocated using a variety of cost allocation bases such as time and effort, full time equivalent, and square footage.

Performance indicator

The consolidated statement of activities includes operating income prior to nonoperating revenue as the performance indicator. Changes in net assets which are excluded from the performance indicator include gain in noncontrolling interest in subsidiary and DHHS grants and contract services for capital additions.

Tax status

The Center, HDFC and the Foundation were incorporated as not-for-profit corporations under the laws of the State of New York and are exempt from income taxes under Section 501(c)(3) of the Code. Therefore, there is no provision for income taxes.

Morris Heights Health Center, Inc. and Subsidiaries

Notes to Consolidated Financial Statements June 30, 2019

Developers file annual federal, state and local information returns and, accordingly, pay no income tax. Income and deductions are passed to the members for tax purposes.

HCDC is a C Corporation subject to federal, state and local income taxes.

The Company has no unrecognized tax benefits at June 30, 2019. The Company's federal and state information returns prior to fiscal year 2016 are closed and management continually evaluates expiring statutes of limitations, audits, proposed settlements, changes in tax law and new authoritative rulings.

The Company recognizes interest and penalties associated with tax matters as operating expenses and includes accrued interest and penalties with accrued expenses in the consolidated statement of financial position.

Adoption of new accounting pronouncement

For the year ended June 30, 2019, the Corporation adopted the Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") 2016-14, *Not-for-Profit Entities (Topic 958), Presentation of Financial Statements for Not-for-Profit Entities*. This update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return between not-for-profit entities. The changes required by the update have been applied retrospectively to all periods presented. A key change required by ASU 2016-14 are the net asset classes used in these financial statements. Amounts previously reported as unrestricted net assets are now reported as net assets without donor restrictions and amounts previously reported as temporarily restricted net assets and permanently restricted net assets, if applicable, are now reported as net assets with donor restrictions.

Subsequent events

The Company has evaluated subsequent events through November 18, 2019, which is the date the consolidated financial statements were available to be issued.

Note 2 - Liquidity and availability

The following represents the Company's financial assets at June 30, 2019:

Financial assets at year end	
Cash and cash equivalents	\$ 11,577,629
Patient services receivable, net	2,526,515
DHHS grants receivable	1,241,459
Contracts receivable	4,380,516
Due from related party	1,087,492
340B pharmacy receivable	1,363,033
Investments	27,896,232
Certificates of deposit, at cost	247,170
	<hr/>
Total financial assets	50,320,046
Less amounts not available to be used within one year	
Board-designated net assets for capital and special projects	257,114
	<hr/>
Financial assets available to meet general expenditures over the next 12 months	<u>\$ 50,062,932</u>

Morris Heights Health Center, Inc. and Subsidiaries

**Notes to Consolidated Financial Statements
June 30, 2019**

The Center's goal is generally to maintain financial assets to meet 90 days of operating expenses. As part of its liquidity plan, excess cash is invested in short-term investments including exchange-traded funds and mutual funds.

Note 3 - Patient services receivable, net

Patient services receivable, net, consist of the following:

Medicaid and managed care plans	\$ 1,636,246
Medicare	138,408
Other third-party payors and Medicare managed care plans	137,989
Self-pay	837,396
New York State uncompensated care	<u>613,618</u>
Total	3,363,657
Less allowance for doubtful accounts	<u>837,142</u>
Total	<u><u>\$ 2,526,515</u></u>

Patient services receivable is reduced by an allowance for doubtful accounts. In evaluating the collectability of patient services receivable, the Center analyzes its history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management regularly reviews data about these major payor 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 and copayments on accounts for which the third-party payor has not yet paid, or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely). For receivables associated with self-pay patients (which include 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 provided by the Center's policy and the amounts actually collected after all reasonable collection efforts have been exhausted is charged against the allowance for doubtful accounts.

The Center's allowance for doubtful accounts was 25% of patient services receivable at June 30, 2019. The Center wrote off approximately \$2,055,000 of patient services receivable during the year ended June 30, 2019. The Center has not changed its charity care or uninsured discount policies during fiscal year 2019.

Morris Heights Health Center, Inc. and Subsidiaries

**Notes to Consolidated Financial Statements
June 30, 2019**

Note 4 - Contracts receivable

Contracts receivable consist of the following:

New York State Department of Health		
School-Based Health Center Program	\$	469,905
Family Planning Program		218,666
Women, Infants and Children ("WIC")		251,623
Vital Access Program		43,352
In Person Assistors and Navigators ("IPA")		174,554
DSRIP		495,408
Capital Restructuring Financing Program		537,167
Dormitory Authority State of New York		
New York State Technology and Development Program		554,965
New York State Economic Development Assistance Program		88,846
New York State Capital Assistance program		739,358
New York State Office of Children and Family Services		
Healthy Families New York		258,255
MIECHV		44,180
New York City Department of Health and Mental Hygiene		
School Health Programs		113,934
Health Opportunity		75,201
New York City Department of Education		
School Health Program		30,504
Public Health Solutions		149,535
Other		135,063
		<hr/>
Total	\$	<u><u>4,380,516</u></u>

Note 5 - Investments and fair value measurements

A summary of investments for the Center as of June 30, 2019 is as follows:

	<u>Cost</u>	<u>Unrealized gains</u>	<u>Fair value</u>
Mutual funds	\$ 2,439,462	\$ 416,469	\$ 2,855,931
Common stocks	90,827	5,379	96,206
Cash and money market funds	24,662,302	281,793	24,944,095
	<hr/>	<hr/>	<hr/>
Total	<u><u>\$ 27,192,591</u></u>	<u><u>\$ 703,641</u></u>	<u><u>\$ 27,896,232</u></u>

Morris Heights Health Center, Inc. and Subsidiaries

**Notes to Consolidated Financial Statements
June 30, 2019**

The Company values its financial assets on a recurring basis based on the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. In order to increase consistency and comparability in fair value measurements, a fair value hierarchy that prioritizes observable and unobservable inputs is used to measure fair value into three broad levels, which are described below:

- Level 1: Quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets. The fair value hierarchy gives the highest priority to Level 1 inputs.
- Level 2: Observable inputs other than Level 1 prices such as quoted prices for similar assets; quoted prices in inactive markets; or model-derived valuations in which all significant inputs are observable or can be derived principally from or corroborated with observable market data.
- Level 3: Unobservable inputs are used when little or no market data is available. The fair value hierarchy gives the lowest priority to Level 3 inputs.

In determining fair value, the Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible as well as considers counterparty credit risk in its assessment of fair value. The following is a description of the valuation methodology used for investments at fair value. There have been no changes in the methodologies used during the year ended June 30, 2019.

The following table sets forth by level, within the fair value hierarchy, the Company's investments as of June 30, 2019:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds				
30% to 50% equity	\$ 214,388	\$ -	\$ -	\$ 214,388
70% to 85% equity	98,568	-	-	98,568
Diversified emerging markets	74,461	-	-	74,461
Energy limited partnership	143,933	-	-	143,933
Large blend	101,681	-	-	101,681
Long/short equity	120,600	-	-	120,600
Multisector bond	100,588	-	-	100,588
Nontraditional bond	1,110,301	-	-	1,110,301
Short-term bond	309,524	-	-	309,524
Tactical allocation	160,103	-	-	160,103
World allocation	333,160	-	-	333,160
World stock	88,625	-	-	88,625
Common stocks				
Financial services	84,619	-	-	84,619
Healthcare	11,585	-	-	11,585
Money market funds				
Institutional US treasury	508,877	-	-	508,877
US treasury bills	19,209,086	-	-	19,209,086
Cash	-	5,226,133	-	5,226,133
Total	\$ 22,670,099	\$ 5,226,133	\$ -	\$ 27,896,232

Morris Heights Health Center, Inc. and Subsidiaries

**Notes to Consolidated Financial Statements
June 30, 2019**

Investments in mutual funds, common stocks, money market funds and US treasury bills are valued using market prices on active markets and valuations are obtained from real-time quotes for transactions in active exchange markets involving identical assets.

Cash is the amount of cash held in the cash account where cash invested to purchase new investments are temporarily held until spent. Cash is valued at cost, which approximates fair value.

The preceding methods may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Center believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The Center's policy is to recognize transfers into and transfers out of a level as of the actual date of the event or change in circumstance that caused the transfer. There were no transfers among the three levels in 2019.

Note 6 - Property and equipment, net

Property and equipment, net, consists of the following:

Land and land improvements	\$ 1,132,470
Building and improvements	39,964,199
Leasehold improvements	2,774,751
Equipment and furniture	<u>11,201,877</u>
 Total	 55,073,297
Less accumulated depreciation and amortization	<u>25,138,188</u>
	29,935,109
Construction-in-progress	<u>2,385,625</u>
 Total	 <u><u>\$ 32,320,734</u></u>

In the event the DHHS grants are terminated, the DHHS reserves the right to transfer all assets purchased with grant funds to the PHS or third parties.

No depreciation has been provided on assets classified as construction-in-progress as these assets have not yet been placed in service.

As of June 30, 2019, the Center has the following future commitments for construction contracts:

<u>Project</u>	<u>Type of project</u>	<u>Estimated cost to complete</u>	<u>Estimated completion date</u>
Central Sterilization	New construction	\$ 387,833	December 2019
Walton	Renovation of clinical areas	896,836	December 2019
Omega Urgent Care	New construction	1,625,579	January 2020

Morris Heights Health Center, Inc. and Subsidiaries

**Notes to Consolidated Financial Statements
June 30, 2019**

Note 7 - Capital lease obligations

The Organization is the lessee of office equipment under capital leases expiring in various years through 2021. The assets and liabilities under capital leases are recorded at the lower of the present value of the minimum lease payments or the fair value of the asset. The assets are amortized over their estimated productive lives. Amortization of assets under capital leases is included in depreciation expense for fiscal year 2019.

The following is a summary of equipment held under capital leases:

Equipment	\$ 3,135,238
Less accumulated amortization	<u>(2,353,949)</u>
 Total	 <u><u>\$ 781,289</u></u>

At June 30, 2019, the Center was liable under terms of capital lease obligations for the following minimum lease payments:

2020	\$ 550,628
2021	<u>178,516</u>
 Total minimum lease payments	 729,144
Less amount representing interest	<u>39,418</u>
 Present value of net minimum lease payments	 689,726
Less current maturities of capital lease obligations	<u>(514,726)</u>
 Capital lease obligations, less current maturities	 <u><u>\$ 175,000</u></u>

Note 8 - DHHS grants

For the year ended June 30, 2019, the Center recognized grant revenue from the DHHS as follows:

<u>Grant number</u>	<u>Grant period</u>	<u>Total grant</u>	<u>Operating</u>	<u>Nonoperating</u>	<u>Total revenue recognized</u>
6 H80CS00472-17-22	6/1/2018- 5/31/2019	\$ 7,950,568	\$ 6,810,020	\$ -	\$ 6,810,020
6 H80CS00472-18-04	6/1/2019- 5/31/2020	7,326,877	520,471	-	520,471
6 H76HA00061-27-01	5/1/2018 - 4/30/2019	650,555	637,447	-	637,447
5 H76HA00061-28-00	5/1/2019 - 4/30/2020	650,555	73,387	-	73,387
1 C8DCS29127-01-00	9/1/2015 - 9/29/2018	877,500	-	480,682	480,682
			<u>\$ 8,041,325</u>	<u>\$ 480,682</u>	<u>\$ 8,522,007</u>

Morris Heights Health Center, Inc. and Subsidiaries

**Notes to Consolidated Financial Statements
June 30, 2019**

Note 9 - Patient services revenue, net

For the year ended June 30, 2019, the Center recognized patient services revenue, net of contractual allowances and discounts (but before the provision for bad debts) for the following major payors:

Medicaid and Medicaid managed care plans	\$ 19,867,809
Medicare	1,269,268
Other third-party and Medicare managed care plans	2,221,207
Self-pay	1,955,556
New York State uncompensated care	2,680,118
New York State Medicaid managed care wraparound	10,264,807
Medicaid managed care incentives	<u>1,090,899</u>
 Total	 <u><u>\$ 39,349,664</u></u>

Medicaid and Medicare revenue is reimbursed to the Company 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 10 - Contract services

For the year ended June 30, 2019, contract services revenue consists of the following:

	<u>Operating</u>	<u>Nonoperating</u>	<u>Total</u>
New York State Department of Health			
School-Based Health Center Program	\$ 778,686	\$ -	\$ 778,686
Family Planning Program	607,502	-	607,502
Women, Infants and Children ("WIC")	2,112,877	-	2,112,877
Vital Access Program	32,160	-	32,160
DSRIP	3,761,325	-	3,761,325
In Person Assistors and Navigators	613,747	-	613,747
Capital Restructuring Financing Program	-	546,527 *	546,527
New York State Office of Children and Family Services			
Healthy Families New York	674,627	-	674,627
MIECHV	204,091	-	204,091
New York State Department of Labor			
New York Youth Works Training and Placement Program	6,371	-	6,371
New York City Department of Health and Mental Hygiene			
School Health Programs	849,054	-	849,054
Health Opportunities	672,984	-	672,984
Dormitory Authority State of New York			
New York State Technology and Development Program	-	554,965 *	554,965
New York State Economic Development Assistance Program	-	88,846 *	88,846
New York State Capital Assistance program	-	739,358 *	739,358
Public Health Solutions	466,802	-	466,802
Other	<u>389,258</u>	<u>-</u>	<u>389,258</u>
 Total	 <u><u>\$ 11,169,484</u></u>	 <u><u>\$ 1,929,696</u></u>	 <u><u>\$ 13,099,180</u></u>

* Represents nonoperating contract services revenue for capital expenditures.

Morris Heights Health Center, Inc. and Subsidiaries

**Notes to Consolidated Financial Statements
June 30, 2019**

Note 11 - Pension plan

The Center maintains a profit sharing plan covering substantially all employees meeting certain eligibility requirements. There was no pension expense incurred during the year. The contribution made to the plan during the year was from taken from the reserve held by the custodian.

Note 12 - Concentration of source or supply of labor

Approximately 69% of the Center's employees are members of the 1199SEIU United Healthcare Workers East (the "Union"). MHHC's contract with the Union is subject to renegotiation in April 2021. MHHC's other employees are not represented by a union.

Note 13 - Commitments and contingencies

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

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 purchases professional and general liability insurance to cover medical malpractice claims in excess of the FTCA coverage. There are no known claims or incidents that may result in the assertion of additional claims arising from services provided to patients as of June 30, 2019.

The Company is involved in other claims and legal actions in the ordinary course of business. Management is of the opinion that the ultimate outcome of these matters would not have a material adverse impact on the Company's consolidated financial position, results of operations or cash flows.

The Center has four facilities under noncancelable operating leases with terms from five to ten years. Rent expense for the year ended June 30, 2019 was \$1,387,105. In addition, the Center leases various equipment under five-year lease terms. At June 30, 2019, the leases require future minimum payments as follows:

2020	\$	1,484,484
2021		1,504,175
2022		1,471,035
2023		1,190,862
2024		1,027,405
Thereafter		<u>3,999,019</u>
Total	\$	<u><u>10,676,980</u></u>

Morris Heights Health Center, Inc. and Subsidiaries

**Notes to Consolidated Financial Statements
June 30, 2019**

Note 14 - Transactions with subsidiary, affiliates and related parties

MHHC Foundation, Inc.

As of June 30, 2019, the Foundation owed the Center \$417,924 for the annual gala event (fundraiser) and the cost of other services paid for by the Center on behalf of the Foundation. Meanwhile, the Center owed the Foundation \$242,321 for rent. The net of the two is a receivable by the Center from the Foundation of \$175,603. For the year ended June 30, 2019, the Foundation recognized \$72,000 rent income from the Center. As of June 30, 2019, the Foundation's non-controlling membership interest in Developers losses exceeded the original amount of its investment by \$460,771; the resulting liability is presented in the consolidating statement of financial position as other liabilities.

Investment in Harrison Circle, LP

HCDC is the general partner of the Partnership and has a .01% ownership interest. The required capital contribution for HCDC is \$2,606,300. The balance remaining payable as of June 30, 2019 is \$943,380 and the net investment in the Partnership is \$2,606,178. The Center makes advances to the Partnership for operating costs. As of June 30, 2019, the balance due from the Partnership for advances made by the Center amounted to \$1,087,492 which is included in due from related party in the consolidated statement of financial position.

Investment in Mid-Bronx Endoscopy Center, LLC ("MBEC")

In December 2016, HCDC entered into an operating agreement with MBEC and as of June 30, 2019 HCDC has a total contribution of \$130,500 which represented 10% interest in the entity through the ownership of Class D shares. The Center advanced the \$130,500 to HCDC. In December 2016, the Center entered into a lease agreement with MBEC; the Center recorded lease income of \$343,863 which is included in other income in the consolidated statement of activities. For the year ended June 30, 2019, HCDC recognized a share in the net income of MBEC amounting to \$61,474; HCDC's share in net loss of MBEC exceeded the amount of its original investment by \$40,631, which is presented as part of other liabilities in the consolidated statement of financial position.

Harrison Circle Project:

Low Income Housing Tax Credit

The Center, in conjunction with the Mount Hope Housing Company, Inc. ("Mount Hope"), is the sponsor of a low-income housing project as required by the U.S. Department of Housing and Urban Development's Section 202 Program ("HUD"). In a January 30, 2008 agreement, the Center received a capital advance of \$7,800,000 from HUD and has loaned the capital advance fund to the Partnership as evidenced by the promissory note from the Partnership to the Center and secured by a mortgage from HDFC and the Partnership. The Center has assigned its interest in the mortgage and note to the United States of America acting by and through the Secretary of Housing and Urban Development. Under the assignment, also dated January 30, 2008, HUD agrees to look solely to the mortgaged property and its rents, issues and profits to satisfy any indebtedness under the capital advance agreement.

Morris Heights Health Center, Inc. and Subsidiaries

**Notes to Consolidated Financial Statements
June 30, 2019**

The Center and HCDC have entered into a Guaranty Agreement and an Unconditional Construction Completion Guaranty Agreement as well as a Development Service Agreement with the Partnership. The Center and HCDC have guaranteed the Partnership to complete the construction of the project and to make payments necessary to complete the work and discharge all liens. All amounts due and payable would be on demand by the Partnership. There were no development fees earned for the year ended June 30, 2019. As of June 30, 2019, receivables outstanding for development fees earned in the prior years amounted to \$181,475.

Sale of Condominium Unit Lot 1001

On January 30, 2008, the Center transferred property known as Section 11, Block 3206, Lot 1001 to HDFC as nominee for the Partnership. The unit, valued at \$1,728,000 was then transferred to HCDC, the general partner of the Partnership. HCDC then made a capital contribution in the form of the unit to the Partnership. The property is subject to a purchase money mortgage by the Partnership to the Center for \$615,000 at an interest rate of 4.72% per annum and matures on January 1, 2050, and a purchase money mortgage by HCDC to the Center for \$1,113,000. The \$1,113,000 has been eliminated on the consolidated statement of financial position. In connection with the purchase money mortgage, the Center is due \$426,591 for interest earned as of June 30, 2019.

The purchase money mortgage is subordinate to HUD's capital advance/building loan agreements.

Supplementary Information

Morris Heights Health Center, Inc. and Subsidiaries

**Consolidating Statement of Financial Position
June 30, 2019**

	Morris Heights Health Center, Inc.	MHHC Developers, LLC	Morris Heights Senior Housing Development Fund Company, Inc.	Harrison Circle Development Corporation	MHHC Foundation, Inc.	Eliminations	Total
Assets							
Current assets							
Cash and cash equivalents	\$ 7,345,042	\$ 833,409	\$ 10,878	\$ -	\$ 3,388,300	\$ -	\$ 11,577,629
Patient services receivable, net	2,526,515	-	-	-	-	-	2,526,515
DHHS grants receivable	1,241,459	-	-	-	-	-	1,241,459
Contracts receivable	4,380,516	-	-	-	-	-	4,380,516
Due from related party	1,403,805	-	-	-	-	(316,313)	1,087,492
340B pharmacy receivable	1,363,033	-	-	-	-	-	1,363,033
Investments	27,245,280	-	-	-	650,952	-	27,896,232
Certificates of deposits, at cost	247,170	-	-	-	-	-	247,170
Prepaid expenses and other current assets	507,900	-	-	-	94,286	-	602,186
Total current assets	46,260,720	833,409	10,878	-	4,133,538	(316,313)	50,922,232
Security deposits	242,194	-	-	-	-	-	242,194
Cash limited as to use	-	-	-	-	257,114	-	257,114
Investment in MHHC Developers, LLC	15,325,160	-	-	-	-	(15,325,160)	-
Investment in Harrison Circle, LP	-	-	-	1,662,798	-	-	1,662,798
Developer's fee receivable	181,475	-	-	-	-	-	181,475
Purchase money mortgage receivable - related party	1,728,000	-	-	-	-	(1,113,000)	615,000
Purchase money mortgage receivable - interest receivable	426,591	-	-	-	-	-	426,591
Property and equipment, net	32,207,123	-	-	-	113,611	-	32,320,734
Total assets	\$ 96,371,263	\$ 833,409	\$ 10,878	\$ 1,662,798	\$ 4,504,263	\$ (16,754,473)	\$ 86,628,138
Liabilities and Net Assets and Equity							
Current liabilities							
Purchase money mortgage payable - related party	\$ -	\$ -	\$ -	\$ 1,113,000	\$ -	\$ (1,113,000)	\$ -
Accounts payable and accrued expenses	2,746,166	-	-	-	26,696	-	2,772,862
Accrued compensation	2,114,132	-	-	-	-	-	2,114,132
Due to related parties	-	6,558	-	145,550	175,603	(316,313)	11,398
Current maturities of capital lease obligations	514,726	-	-	-	-	-	514,726
Total current liabilities	5,375,024	6,558	-	1,258,550	202,299	(1,429,313)	5,413,118
Capital lease obligations, less current maturities	175,000	-	-	-	-	-	175,000
Other liabilities	86,857	-	-	40,631	460,771	(460,771)	127,488
Total liabilities	5,636,881	6,558	-	1,299,181	663,070	(1,890,084)	5,715,606
Net assets							
Without donor restrictions							
Undesignated	90,734,382	-	10,878	-	3,550,769	363,617	94,659,646
Board-designated for capital and special projects	-	-	-	-	257,114	-	257,114
With donor restrictions	-	-	-	-	33,310	-	33,310
Common stock	-	-	-	10	-	(10)	-
Additional-paid-in capital	-	-	-	549,920	-	(549,920)	-
Accumulated deficit	-	-	-	(186,313)	-	186,313	-
	90,734,382	-	10,878	363,617	3,841,193	-	94,950,070
Equity	-	1,287,622	-	-	-	(15,325,160)	(14,037,538)
Total net assets and equity	90,734,382	1,287,622	10,878	363,617	3,841,193	(15,325,160)	80,912,532
Noncontrolling interest in subsidiary held by MHHC Foundation, Inc.	-	(460,771)	-	-	-	460,771	-
Total net assets, equity and noncontrolling interest in subsidiary	90,734,382	826,851	10,878	363,617	3,841,193	(14,864,389)	80,912,532
Total liabilities and net assets and equity	\$ 96,371,263	\$ 833,409	\$ 10,878	\$ 1,662,798	\$ 4,504,263	\$ (16,754,473)	\$ 86,628,138

See Independent Auditor's Report.

Morris Heights Health Center, Inc. and Subsidiaries

**Consolidating Statement of Activities and Changes in Net Assets and Equity
Year Ended June 30, 2019**

	Morris Heights Health Center, Inc.	MHHC Developers, LLC	Morris Heights Senior Housing Development Fund Company, Inc.	Harrison Circle Development Corporation	MHHC Foundation, Inc.	Eliminations	Total
Revenue without donor restrictions							
Patient services, net	\$ 39,349,664	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 39,349,664
Provision for bad debt	(1,904,512)	-	-	-	-	-	(1,904,512)
Net patient services revenue net of provision for bad debt	37,445,152	-	-	-	-	-	37,445,152
DHHS grants	8,041,325	-	-	-	-	-	8,041,325
Contract services	11,354,258	-	-	-	-	(184,774)	11,169,484
340b pharmacy	14,380,333	-	-	-	-	-	14,380,333
In-kind contributions - donated vaccines	2,351,435	-	-	-	-	-	2,351,435
Meaningful use incentive	51,000	-	-	-	-	-	51,000
Investment return, net	382,786	4,610	10	-	18,482	-	405,888
Released from restrictions	-	-	-	-	40,000	-	40,000
Other income	920,657	-	-	-	482,363	(72,000)	1,331,020
Total revenue without donor restrictions	74,926,946	4,610	10	-	540,845	(256,774)	75,215,637
Expenses							
Salaries and benefits	41,450,217	-	-	-	190,973	-	41,641,190
Other than personnel services	27,677,385	768	-	10	402,944	(256,774)	27,824,333
Interest expense	163,421	-	-	-	2,004	-	165,425
Total expenses	69,291,023	768	-	10	595,921	(256,774)	69,630,948
Operating income/(loss) prior to depreciation and amortization and nonoperating revenue	5,635,923	3,842	10	(10.00)	(55,076)	-	5,584,689
Depreciation and amortization	2,729,201	-	-	-	-	-	2,729,201
Operating income/(loss) prior to nonoperating revenue	2,906,722	3,842	10	(10.00)	(55,076)	-	2,855,488
Nonoperating revenue (expense)							
Gain in noncontrolling interest in subsidiary	-	-	-	61,474	384	(384)	61,474
Capital DHHS grants	480,682	-	-	-	-	-	480,682
Capital contract services	1,929,696	-	-	-	-	-	1,929,696
Total nonoperating revenue (expense)	2,410,378	-	-	61,474	384	(384)	2,471,852
Change in net assets without donor restrictions	5,317,100	3,842	10	61,464	(54,692)	(384)	5,327,340
Change in net assets with donor restrictions							
Released to operations	-	-	-	-	(40,000)	-	(40,000)
Decrease in net assets with donor restrictions	-	-	-	-	(40,000)	-	(40,000)
Change in consolidated net assets	5,317,100	3,842	10	61,464	(94,692)	(384)	5,287,340
Less change in consolidated net assets attributable to noncontrolling interest	-	(384)	-	-	-	384	-
Change in consolidated net assets attributable to Morris Heights Health Center, Inc. and Subsidiaries	\$ 5,317,100	\$ 3,458	\$ 10	\$ 61,464	\$ (94,692)	\$ -	\$ 5,287,340
Net assets and equity							
Beginning	\$ 85,417,282	\$ (14,040,996)	\$ 10,868	\$ 302,153	\$ 3,935,885	\$ -	\$ 75,625,192
Change in consolidated net assets attributable to Morris Heights Health Center, Inc. and Subsidiaries	5,317,100	3,458	10	61,464	(94,692)	-	5,287,340
Total Morris Heights Health Center, Inc. and Subsidiaries	90,734,382	(14,037,538)	10,878	363,617	3,841,193	-	80,912,532
Partner's capital from MHHC, Inc.	-	15,325,160	-	-	-	(15,325,160)	-
Noncontrolling interest in subsidiary held by MHHC Foundation, Inc.	-	(460,771)	-	-	-	460,771	-
Net assets and equity, end	\$ 90,734,382	\$ 826,851	\$ 10,878	\$ 363,617	\$ 3,841,193	\$ (14,864,389)	\$ 80,912,532

See Independent Auditor's Report.

Morris Heights Health Center, Inc. and Subsidiaries

**Schedule of Expenditures of Federal Awards
Year Ended June 30, 2019**

Federal Grantor/ Pass-through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-through Grantor's Number	Passed Through to Subrecipients	Total Expenditures
U.S. Department of Health and Human Services				
Direct programs				
Health Center Program Cluster				
Health Center Program	93.224	N/A	\$ -	\$ 1,575,751
Grants for New and Expanded Services under the Health Center Program	93.527	N/A	-	5,754,740
Total Health Center Program Cluster			-	7,330,491
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918	N/A	-	710,834
Grants for Capital Development in Health Centers	93.526	N/A	-	480,682
Passed through New York State Department of Health				
Medicaid Cluster				
Medicaid Cluster Medical Assistance Program	93.778	C-028881	-	218,662
Total Medicaid Cluster			-	218,662
Children's Health Insurance Program	93.767	C-028881	-	37,017
Maternal and Child Health Services Block Grant to the States	93.994	C-027030	-	60,750
		DPH01-C32402GG-		
Maternal and Child Health Services Block Grant to the States	93.994	3450000	-	146,886
Total 93.994			-	207,636
Family Planning Services	93.217	C-027030	-	80,924
Passed through New York City Department of Health and Mental Hygiene				
Immunization Cooperative Agreements	93.268	Not Available	-	2,351,435
Passed through New York State Office of Children and Family Services				
Maternal, Infant and Early Childhood Home Visiting Grant Program	93.870	C028302	-	129,120
Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program	93.505	C027883	-	74,970
Passed through Public Health Solutions				
HIV Emergency Relief Project Grants	93.914	18-CCR-838	-	466,802
Total U.S. Department of Health and Human Services			-	12,088,573
U.S. Department of Agriculture				
Passed through New York State Department of Health				
WIC Special Supplemental Nutrition Program for Women, Infants and Children	10.557	DOHO1-C30381GG- 3450000	-	9,763,225
Total U.S. Department of Agriculture			-	9,763,225
Total expenditures of federal awards			\$ -	\$ 21,851,798

See Notes to Schedule of Expenditures of Federal Awards.

Morris Heights Health Center, Inc. and Subsidiaries

**Notes to Schedule of Expenditures of Federal Awards
June 30, 2019**

Note 1 - Basis of presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of Morris Heights Health Center Inc. (the "Center") under programs of the federal government for the fiscal 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* ("Uniform Guidance"). Because the Schedule presents only a selected portion of the operations of the Center, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Center.

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 are limited as to reimbursement. The Center elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

Note 3 - Nonmonetary assistance

Nonmonetary assistance is reported in the Schedule at the fair value of the WIC checks and vaccinations received. The total federal share of the food instruments distributed by the Center amounted to \$7,654,574, and is included in the Schedule. The total federal share of the vaccinations distributed by the Center amounted to \$2,351,435. These amounts are included in the Schedule.

Independent Auditor's 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 Directors
Morris Heights Health Center, Inc.

We have audited the financial statements of Morris Heights Health Center, Inc. and Subsidiaries (the "Company") (a nonprofit organization), which comprise the consolidated statement of financial position as of June 30, 2019, and the related consolidated statements of activities, changes in net assets and equity, 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 November 18, 2019. We conducted our audit 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 MHC Developers, LLC, Morris Heights Senior Housing Development Fund Company, Inc., Harrison Circle Development Corporation and MHC Foundation, Inc. were not audited in accordance with *Government Auditing Standards* and accordingly this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with MHC Developers, LLC, Morris Heights Senior Housing Development Fund Company, Inc., Harrison Circle Development Corporation and MHC Foundation, Inc.

Internal Control over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Company'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 Company's internal control. Accordingly, we do not express an opinion on the effectiveness of the Company'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 audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Company'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 financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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



New York, New York
November 18, 2019

Independent Auditor's Report on Compliance for Each Major Federal Program and on
Internal Control over Compliance Required by the Uniform Guidance

To the Board of Directors
Morris Heights Health Center, Inc.

Report on Compliance for Each Major Federal Program

We have audited Morris Heights Health Center, Inc.'s (the "Center's") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Center's major federal programs for the year ended June 30, 2019. The Center's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

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

Report on Internal Control over Compliance

Management of the Center is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Center's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program 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 the Center's internal control over compliance.

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

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

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



New York, New York
November 18, 2019

Morris Heights Health Center, Inc. and Subsidiaries

Schedule of Findings and Questioned Costs
Year Ended June 30, 2019

Section I - Summary of Auditor's Results

Consolidated financial statements:

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

Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? yes no
- Significant deficiency(ies) identified? yes none reported

Noncompliance material to the consolidated financial statements noted?

yes no

Federal awards:

Internal control over major programs:

- Material weakness(es) identified? yes no
- Significant deficiency(ies) identified? yes none reported

Type of auditor's report issued on compliance for major programs:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?

yes no

Identification of major programs:

CFDA Number(s)

Name of federal program

93.224
93.527

U.S. Department of Health and Human Services:
Health Centers Cluster:
Consolidated Health Centers
Affordable Care Act (ACA)
Grants for New and Expanded
Services under the Health Center
Program

10.557

U.S. Department of Agriculture:
Special Supplemental
Nutrition Program for Women, Infants
and Children (WIC)

Dollar threshold used to distinguish between type A and B programs:

\$750,000

Auditee qualified as low-risk auditee?

yes no

Morris Heights Health Center, Inc. and Subsidiaries

**Schedule of Findings and Questioned Costs
Year Ended June 30, 2019**

Section II - Financial Statement Findings

None.

Section III - Federal Awards Findings and Questioned Costs

None.



Independent Member of Nexia International

cohnreznick.com