Esperanza Health Center, Inc.
and Controlled Entity

Consolidated Financial Statements
and Supplementary Information

June 30, 2019 and 2018

Independent Auditors' Report

To the Board of Directors of
Esperanza Health Center, Inc. and Controlled Entity

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Esperanza Health Center, Inc. and Controlled Entity (the Center), which comprise the consolidated balance sheets as of June 30, 2019 and 2018, and the related consolidated statements of operations and changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 the 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 consolidated financial position of the Center as of June 30, 2019 and 2018, and the results of its operations and changes in its net assets, and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information on pages 24 and 25 is presented for purposes of additional analysis rather than to present the financial position, results of operations, changes in net assets, and cash flows of the individual entities or divisions and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from, and related 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.

Report on Other Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards (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* (Uniform Guidance), and the schedules of City of Philadelphia contract number 1920318, Schedule of Source and Status of Funds, Schedule of Program Expenditures, Reconciliation Schedule and Schedule of Program Income on pages 37 through 40, as required by the City of Philadelphia *Subrecipient Audit Guide* (collectively, the other information), are presented for purposes of additional analysis, and is not a required part of the consolidated financial statements. Such other 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 other 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 other 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 other 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 June 30, 2020, on our consideration of the Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Center'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 Center's internal control over financial reporting and compliance.

Baker Tilly Virchow Krause, LLP

Iselin, New Jersey
June 30, 2020

Esperanza Health Center, Inc. and Controlled Entity

Consolidated Balance Sheets
June 30, 2019 and 2018

	2019	2018
Assets		
Current Assets		
Cash and cash equivalents	$ 7,974,341	$ 4,485,777
Patient accounts receivable, net	845,145	529,369
Dispensary accounts receivable	495,446	561,281
Other receivables	128,740	276,586
Prepaid expenses and other current assets	294,213	167,450
Total current assets	9,737,885	6,020,463
Property and Equipment, Net	23,810,233	8,154,492
Assets Whose Use is Limited	2,200,000	12,276,384
Long-Term Investments	2,030,296	-
NMTC Leverage Loan	12,346,500	-
NMTC CDE Reserve Fund	703,214	-
Security Deposits	136,144	318,292
Total assets	$ 50,964,272	$ 26,769,631
Liabilities and Net Assets		
Current Liabilities		
Accounts payable and accrued expenses	$ 842,251	$ 864,488
Accounts payable, construction	3,554,051	-
Accrued compensation	545,759	545,754
Total current liabilities	4,942,061	1,410,242
NMTC Notes Payable	18,200,000	-
Total liabilities	23,142,061	1,410,242
Net Assets		
Without donor restrictions:		
Undesignated	25,393,755	12,940,390
Board designated reserve	2,200,000	12,276,384
Total net assets without donor restrictions	27,593,755	25,216,774
With donor restrictions	228,456	142,615
Total net assets	27,822,211	25,359,389
Total liabilities and net assets	$ 50,964,272	$ 26,769,631

See notes to consolidated financial statements

Esperanza Health Center, Inc. and Controlled Entity

Consolidated Statements of Operations and Changes in Net Assets
Years Ended June 30, 2019 and 2018

	2019	2018
Unrestricted Revenue and Support		
Revenue:		
Patient services, net of contractual adjustments	$ 16,602,122	$ 17,007,268
Provision for bad debts	(230,983)	(138,425)
Net patient services revenue less provision for bad debts	16,371,139	16,868,843
Other revenue	331,214	229,846
Net assets released from restriction	464,193	206,719
Total revenue	17,166,546	17,305,408
Support:		
DHHS grants	2,577,297	2,472,121
Contract services and other grants	1,698,571	1,858,749
Contributions	347,916	160,324
Total support	4,623,784	4,491,194
Total unrestricted revenue and support	21,790,330	21,796,602
Expenses		
Salaries and wages	9,386,222	9,015,868
Employee benefits	2,674,375	2,430,641
Pharmaceuticals	3,559,961	3,927,039
Consultant and contractual services	1,388,759	1,106,639
Depreciation and amortization	506,309	493,553
Occupancy	401,999	439,049
Consumable supplies	338,119	276,703
Professional fees	262,713	373,582
Other administrative expenses	865,130	765,416
Laboratory	153,688	115,089
Total expenses	19,537,275	18,943,579
Operating income	2,253,055	2,853,023
Investment Income	123,926	141,173
Revenues in excess of expenses and increase in net assets without donor restrictions	2,376,981	2,994,196
Net Assets With Donor Restrictions		
Contributions for program services	550,034	259,794
Net assets released from restriction	(464,193)	(206,719)
Increase in net assets with donor restrictions	85,841	53,075
Increase in net assets	2,462,822	3,047,271
Net Assets		
Beginning	25,359,389	22,312,118
Ending	$ 27,822,211	$ 25,359,389

See notes to consolidated financial statements

Esperanza Health Center, Inc. and Controlled Entity

Consolidated Statements of Cash Flows
Years Ended June 30, 2019 and 2018

	2019	2018
Cash Flows From Operating Activities		
Increase in net assets	$ 2,462,822	$ 3,047,271
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	506,309	493,553
Provision for bad debts	230,983	138,425
Contributions for program services	(550,034)	(259,794)
Changes in assets and liabilities:		
Other receivables	147,846	(87,905)
Patient accounts receivable	(546,759)	20,249
Dispensary accounts receivable	65,835	(62,480)
Prepaid expenses and other current assets	(126,763)	11,701
Accounts payable and accrued expenses	(22,237)	138,479
Accrued compensation	5	18,269
Estimated third-party payor settlements	-	44,663
Net cash provided by operating activities	2,168,007	3,502,431
Cash Flows From Investing Activities		
Purchase of property and equipment	(12,607,999)	(1,262,550)
Decrease (increase) in assets whose use is limited and investments	8,046,088	(1,534,000)
Deposits to NMTC CDE reserve fund	(703,214)	-
Decrease (increase) in security deposits	182,148	(158,698)
Net cash used in investing activities	(5,082,977)	(2,955,248)
Cash Flows From Financing Activities		
Proceeds from issuance of NMTC notes payable	18,200,000	-
NMTC leverage loan	(12,346,500)	-
Contributions for program services	550,034	259,794
Net cash provided by financing activities	6,403,534	259,794
Net increase in cash and cash equivalents	3,488,564	806,977
Cash and Cash Equivalents, Beginning	4,485,777	3,678,800
Cash and Cash Equivalents, Ending	$ 7,974,341	$ 4,485,777
Noncash Investing and Financing Activities		
Accounts payable, construction	$ 3,554,051	$ -

See notes to consolidated financial statements

1. Organization

Esperanza Health Center, Inc. (EHC) operates three healthcare centers located in North Philadelphia, Pennsylvania. EHC provides high-quality and culturally sensitive healthcare, health education, dental, nutrition, and counseling services from a Christian perspective to the Latino community.

In April 2018, EHC formed Esperanza Health Center Support Corporation (EHC Support Corporation) for the purpose of supporting EHC and for the purpose of acquiring and holding real estate, along with the assets and liabilities for a new facility being constructed under the New Markets Tax Credits (NMTC) program. EHC is the sole member of EHC Support Corporation.

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

Principles of Consolidation

The consolidated financial statements include the accounts of EHC and EHC Support Corporation (collectively, the Center). All significant intercompany accounts and transactions have been eliminated.

The Center evaluated subsequent events for recognition or disclosure through June 30, 2020, the date the consolidated financial statements were available to be issued.

2. Significant Accounting Policies

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include investments in highly liquid financial instruments purchased with original maturities of three months or less.

The Center maintains operating cash and cash equivalents with local financial institutions. Accounts in each financial institution are insured by the FDIC to $250,000.

Patient Accounts Receivable

Patient accounts receivable are reported at net realizable value. Accounts are written off when they are determined to be uncollectible based upon management's assessment of individual accounts. The allowance for doubtful accounts is estimated based upon a periodic review of the accounts receivable aging, payor classifications, and lookbacks on actual cash collected. The allowance for doubtful accounts was approximately $457,000 and $354,000 at June 30, 2019 and 2018, respectively. The Center's allowance for doubtful accounts decreased from 40 percent of patient accounts receivable at June 30, 2018 to 35 percent of patient accounts receivable at June 30, 2019.

Dispensary Accounts Receivable

Dispensary accounts receivable represent amounts owed to the Center from third-party dispensaries in conjunction with the Center's drug pricing program.

Property and Equipment

Property and equipment are recorded at cost or, if donated, at the fair value at the date of donation. Depreciation and amortization are recorded on a straight-line basis over the estimated useful lives of the assets, which range from 5 to 40 years. Leasehold improvements are amortized on a straight-line basis over the estimated useful life of the improvement or the term of the lease, whichever is less. The Center capitalizes all purchases of property and equipment in excess of $5,000.

Property and equipment are evaluated for impairment whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. If expected cash flows are less than the carrying value, an impairment loss is recognized equal to an amount by which the carrying value exceeds the fair value of the assets. No impairment losses were recorded in 2019 and 2018.

According to federal regulations, any property and equipment items obtained through federal funds are subject to a lien by the federal government. As long as the Center maintains its tax-exempt status, or so long as the equipment is used for its 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.

Investments, Assets Whose Use is Limited and Investment Risk

Investments and assets whose use is limited are valued at fair value based on estimates using quoted prices for the same or similar securities for certificates of deposit and U.S. government agency obligations. Cash and cash equivalents are carried at cost, which approximate fair value. Investment income or loss (including unrealized gains and losses on investments and interest) is included in the determination of revenues in excess of expenses and increase in net assets without donor restrictions unless the income or loss is restricted by donor or law. Interest income is measured as earned on the accrual basis. Purchases and sales of securities and realized gains and losses (if any) are recorded on a trade-date basis.

The Center's investments are comprised of a variety of financial instruments and are managed by investment advisors. The fair values reported in the consolidated balance sheets are subject to various risks including changes in the equity markets, the interest rate environment and general economic conditions. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the fair value of investment securities, it is reasonably possible that the amounts reported in the consolidated balance sheets could change materially in the near term.

Assets Whose Use Is Limited

Assets whose use is limited include designated assets set aside by the Center's Board of Directors for capital projects and other program services.

NMTC CDE Reserve Fund

The Center entered into financing agreements in 2018 to assist with the construction of the new facility. The financing arrangement requires the Center to maintain cash received restricted for construction of the new facility in separate accounts. These accounts are pledged and subject to control of the lenders at June 30, 2019 (see Note 9).

NMTC Leverage Loan

The NMTC leverage loan is collateralized by the membership interests related to New Markets Tax Credit transaction (Note 9) and is stated at the principal amount. Payments on the NMTC leverage loan are allocated first to accrued and unpaid interest with the remainder to the outstanding principal balance. The Center has one class of financing receivables from a highly credible institution. Management assesses the credit quality of the NMTC leverage loan based on indicators such as collateralization, collection experience and management's internal metrics. The NMTC leverage loan is periodically assessed for impairment based on relevant facts and circumstances. Management reviews the collectability of the NMTC leverage loan on an ongoing basis. Management has determined that no allowance is necessary and no impairment has occurred as of June 30, 2019.

Net Assets

Net assets, revenues, gains and losses are classified based on the existence or absence of donor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions - net assets available for use in general operations and not subject to donor restrictions. All revenue not restricted by donors and donor restricted contributions whose restrictions are met in the same period in which they are received are accounted for in net assets without donor restrictions.

Net Assets With Donor Restrictions - net assets subject to donor imposed restrictions. Donor imposed restricted are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. 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.

Performance Indicator

The consolidated statements of operations and changes in net assets includes a determination of revenues in excess of expenses. Changes in net assets without donor restrictions which are excluded from revenues in excess of expenses, consistent with industry practice, include contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets).

Patient Services Revenue

Net patient service revenues are reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. It is reasonably possible that the estimates used could change in the near term.

Charity Care

The Center provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Center does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenues. The Center provided charity care, based on the amount of costs incurred, of approximately $1,567,000 in 2019 and $1,377,000 in 2018.

Grant Revenue

Grants are recognized as revenue when earned. Expense reimbursement-based grants are recognized as revenue when the qualifying expenses have been incurred and all other grant requirements have been met. Grant funds received prior to the incurrence of the qualifying expenses are deferred.

At June 30, 2019, the Center has received grants from governmental entities that have not been recorded in these consolidated financial statements as they have not been earned. These grants require the Center 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. Grants awarded for the acquisition of long-lived assets are reported as unrestricted nonoperating support during the fiscal year in which the assets are acquired.

Contract Revenue

Contract revenue is recognized as revenue when earned. Expense-driven contracts are recognized as revenue when the qualifying expenses have been incurred and all other contract requirements have been met, including the execution of the contract.

Donor Restricted Gifts

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. The gifts are reported as net assets with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose of the restriction is accomplished, net assets with donor restrictions are reclassified as net assets without donor restrictions and reported in the consolidated statements of operations as net assets released from restrictions. 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.

Income Taxes

EHC is a not-for-profit entity as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal income taxes on its exempt income under Section 501(a) of the Internal Revenue Code.

EHC Support Corporation is a not-for-profit entity as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal income taxes on its exempt income under Section 501(a) of the Internal Revenue Code.

EHC and EHC Support Corporation are also exempt from state and local income taxes under similar statutes. Accordingly, no provision for income taxes has been recorded in the accompanying consolidated financial statements.

Recent Accounting Pronouncements

Presentation of Financial Statements of Not-for-Profit Entities

In 2019, the Center adopted the Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. ASU No. 2016-14 addresses the complexity and understandability of net asset classified, 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. The Center has adjusted the presentation of these consolidated financial statements accordingly. ASU No. 2016-14 has been applied retrospectively to all prior periods presented, except for the disclosures around liquidity and availability of resources and analysis of expenses by nature and function. These disclosures have been presented for 2019 only, as allowed by ASU No. 2016-14.

The new standard changes the following aspects of the consolidated financial statements:

- The unrestricted net asset class has been renamed Net Assets Without Donor Restrictions;
- The temporarily restricted net asset class has been renamed Net Assets With Donor Restrictions;
- The consolidated financial statements include a disclosure about liquidity and availability of resources as of June 30, 2019 (Note 19); and
- The functional expense disclosure for 2019 includes expenses reported both by nature and function (Note 14).

Financial Assets and Financial Liabilities

In 2019, the Center early adopted the FASB ASU No. 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities*. The provisions of ASU No. 2016-01: a) requires equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income (the performance indicator); (b) eliminates the requirement to disclose the fair value of financial instruments measured at amortized cost for entities that are not public business entities; and (c) eliminates the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheets. The Center has adjusted the presentation of these consolidated financial statements accordingly.

Revenue From Contracts With Customers

In May 2014, the FASB issued ASU No. 2014-09, *Revenue From Contracts With Customers (Topic 606)*. ASU No. 2014-09 supercedes the revenue recognition requirements in *Topic 605, Revenue Recognition*, and most industry-specific guidance. Under the requirements of ASU No. 2014-09, the core principle is that entities should recognize revenue to depict the transfer of promised goods or services to customers (patients) in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The Center will be required to retrospectively adopt the guidance in ASU No. 2014-09 for years beginning after December 15, 2019. The Center has not yet determined the impact of adoption of ASU No. 2014-09 on its consolidated financial statements.

Restricted Cash

In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. The amendments in this update require that a statement of cash flows explain the change during the period in the total cash, cash equivalents and amounts generally described as restricted cash or restricted cash equivalents. Amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the consolidated statements of cash flows. The Center will be required to retrospectively adopt the guidance in ASU No. 2016-18 for its year ended June 30, 2020. The Center has not yet determined the impact of this standard on its consolidated financial statements.

Contributions

In June 2018, the FASB issued ASU No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. ASU No. 2018-08 is intended to clarify and improve accounting guidance for contributions received and contributions made. The amendments in ASU No. 2018-08 should assist entities in: (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal) transactions subject to other guidance and; (2) determining whether a contribution is conditional. The Center will be required to adopt the guidance in ASU No. 2018-08 for its year ending June 30, 2020. The Center has not yet determined the impact of this standard on its consolidated financial statements.

Leases

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. ASU No. 2016-02 was issued to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the consolidated balance sheets and disclosing key information about leasing arrangements. Under the provisions of ASU No. 2016-02, a lessee is required to recognize a right-to-use asset and lease liability, initially measured at the present value of the lease payments, in the consolidated balance sheets. In addition, lessees are required to provide qualitative and quantitative disclosures that enable users to understand more about the nature of the Center's leasing activities. The Center will be required to retrospectively adopt the guidance in ASU No. 2016-02 for years beginning after December 15, 2021. The Center has not yet determined the impact of adoption of ASU No. 2016-02 on its consolidated financial statements.

3. Net Patient Services Revenues

The Center has agreements with third-party payors which provide for reimbursement to the Center at amounts different from its established rates. Contractual adjustments under third-party reimbursement programs represent the difference between the Center's billings at list price and the amounts reimbursed by Medicare, Medicaid and certain other third-party payors and any differences between estimated third-party reimbursement settlements for prior years and subsequent final settlements. A summary of the basis of reimbursement with major third-party payors and concentrations related to each payor follows:

Medicare: The Center is paid for patient care services rendered to Medicare program beneficiaries primarily under contractual agreements with third-party Medicare Advantage plans. Additional wraparound reimbursement by a fiscal intermediary is paid on a per encounter basis, according to a cost-based reimbursement system, with a cap for health centers in urban communities. For the years ended June 30, 2019 and 2018, Medicare represented approximately 7 percent and 8 percent, respectively, of net patient services revenue from services provided.

Medicaid: The Center is paid for patient services rendered to Medicaid program beneficiaries at prospectively determined rates. Additional wraparound reimbursement by the Pennsylvania Department of Human Services is generally paid quarterly on a per encounter basis, according to a cost-based reimbursement system. For the years ended June 30, 2019 and 2018, Medicaid represented approximately 51 percent and 49 percent, respectively, of net patient services revenue from services provided.

Other third-party and self-pay: The Center has also entered into reimbursement agreements with certain non-Medicaid commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment under these agreements includes discounts from established charges and prospectively determined per diem rates. For the years ended June 30, 2019 and 2018, net patient services revenue from services provided under other third-party insurance agreements and to self-pay patients was approximately 3 percent and 4 percent, respectively, of total net patient service revenue.

Medication dispensary: The Center operates a 340b drug pricing program through a contractual agreement with an independent pharmacy. The service is available only to the Center's patients and can be obtained both through on-site pick up and via mail order. These medications are paid for under contractual relationships with the patient's insurance plan or at a greatly discounted rate for uninsured patients. This discount is not included in the charity care amounts in Note 2. For the years ended June 30, 2019 and 2018, medication dispensary revenue represented approximately 39 percent of net patient services revenue from services provided.

Revenue received under agreements with third-party payors is subject to audit and retroactive adjustment. There was no impact on net patient service revenues in 2019 and 2018 due to adjustments and/or settlements of prior year cost reports.

4. Concentration of Credit Risk

The mix of gross receivables from patient services and third-party payors is as follows:

	2019	2018
Medicaid	57 %	62 %
Medicare	21	17
Other third-party payors	12	13
Self-pay	10	8
	100 %	100 %

5. Property and Equipment

Property and equipment and accumulated depreciation at June 30 consisted of the following:

	2019	2018
Land	$ 1,388,657	$ 1,224,426
Buildings	7,258,940	7,258,940
Equipment	1,116,368	992,528
Leasehold improvements	856,093	842,958
Construction in progress	16,955,969	1,095,125
Total	27,576,027	11,413,977
Less accumulated depreciation	3,765,794	3,259,485
Property and equipment, net	$ 23,810,233	$ 8,154,492

6. Investments and Assets Whose Use Is Limited

Long-Term Investments

The composition of long-term investments is as follows at June 30 and is set forth in the following table:

	2019	2018
Cash and cash equivalents	$ 1,073	$ -
U.S. Government agency obligations	2,029,223	-
Total	$ 2,030,296	$ -

Assets Whose Use is Limited

The composition of assets whose use is limited is as follows at June 30 and is set forth in the following table:

	2019	2018
Cash and cash equivalents	$ 2,200,000	$ 236,384
Certificates of deposit	-	12,040,000
Total	$ 2,200,000	$ 12,276,384

Investment Income

Investment income consists of the following for the years ended June 30:

	2019	2018
Interest Income	$ 114,539	$ 141,173
Unrealized gains	9,387	-
	$ 123,926	$ 141,173

7. Fair Value Measurements

The Center follows the provisions of authoritative guidance relating to fair value measurements. This guidance defines fair value, establishes a framework for measuring fair value under accounting principles generally accepted in the United States of America, and enhances disclosures about fair value measurements. Fair value is defined as the price that would be received to sell an asset or the price that would be paid to transfer a liability in an orderly transaction between market participants at the measurement date. The framework that this guidance establishes for measuring fair value includes a hierarchy used to classify the inputs used in measuring fair value. The hierarchy prioritizes the inputs used in determining valuations into three levels. The level in the fair value hierarchy within which the fair value measurement falls is determined based on the lowest level input that is significant to the fair value measurement. The levels of the fair value hierarchy are as follows:

Level 1 - Fair value is based on unadjusted quoted prices in active markets that are accessible to the Center for identical assets. These generally provide the most reliable evidence and are used to measure fair value whenever available.

Level 2 - Fair value is based on significant inputs, other than Level 1 inputs, that are observable either directly or indirectly for substantially the full term of the asset through corroboration with observable market data. Level 2 inputs include quoted market prices in active markets for similar assets, quoted market prices in markets that are not active for identical or similar assets, and other observable inputs.

Level 3 - Fair value would be based on significant unobservable inputs. Examples of valuation methodologies that would result in Level 3 classification include option pricing models, discounted cash flows, and other similar techniques.

The following tables present financial instruments measured at fair value at June 30, 2019 and 2018, by caption of the consolidated balance sheets:

	2019			
	Fair Value	Level 1	Level 2	Level 3
Reported at Fair Value				
Assets whose use is limited and long-term investments:				
U.S. government agency obligations	$ 2,029,223	$ -	$ 2,029,223	$ -

	2018			
	Fair Value	Level 1	Level 2	Level 3
Reported at Fair Value				
Assets whose use is limited:				
Certificates of deposit	$ 12,040,000	$ -	$ 12,040,000	$ -

The following provides a reconciliation of the amounts included in fair value hierarchy to the amounts reported in the accompanying consolidated balance sheets at December 31:

	2019	2018
Assets whose use is limited and investments:		
Cash and cash equivalents	$ 2,201,073	$ 236,384
Assets measured at fair value	2,029,223	12,040,000
Total	$ 4,230,296	$ 12,276,384

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

Certificates of deposit include savings certificates with fixed maturity dates and interest rates with the carrying amounts approximating fair value due to the short term nature of the instruments.

U.S. Government agency obligations include certain investments in highly liquid debt instruments with original maturities greater than three months at date of purchase and are valued at fair value using quoted prices for the same or similar securities.

8. NMTC Leverage Loan

NMTC leverage loan consists of the following at June 30, 2019:

Note receivable due from Kensington Esperanza Investment Fund, LLC, with quarterly interest payments of 1.47 percent per annum until December 2025; at which point interest and principal payments of $172,862 will be due quarterly until maturity in September, 2046; collateralized by a security interest in the membership interests of the Community Development Entities (Capital Fund NMTC CDE #8, LLC, and PIDC-RDC Sub-CDE XXII, LP), loan and regulatory agreement restricts the use of the funds to EHC, who is a qualified active low-income community business for the term of the note. Loan can be prepaid without penalty or premium.	$ 12,346,500

9. New Market Tax Credit Program and Project

The NMTC program was designed to stimulate investment and economic growth in low income communities by offering taxpayers a 39 percent tax credit against federal income taxes over a seven year period for Qualified Equity Investment (QEIs) in designated Community Development Entities (CDEs). CDEs receive NMTC allocations pursuant to Section 45D of the Internal Revenue Code. These designated CDEs must use substantially all (83 percent) of the proceeds to make Qualified Low Income Community Investments (QLICIs). To earn the tax credit, the QEI must remain invested in the CDE for a seven year period. Additionally, the entity receiving the loans needs to be treated as a Qualified Active Low Income Community Business (QALICB) for the duration of the seven year period. The QALICB requirements are outlined in Treasury Regulation Section 1.45D-1(d)(4)(i).

On September 12, 2018, the Center used existing cash and investments to make a loan to Kensington Esperanza Investment Fund (KEIF), which is 100 percent owned by PNC New Markets Investment Partners, LLC (PNC NMIP). This leverage loan in the amount of $12,346,500 will bear interest at 1.47 percent. Principal and interest payments are due quarterly beginning on December 10, 2018 and continue thereafter until maturity, September 30, 2046.

The proceeds from the loan to KEIF, combined with equity contributions from PNC NMIP, were passed through to two CDEs, Capital Fund NMTC CDE #8, LLC (CF CDE) and PIDC-RDC Sub-CDE XXII, LP (PIDC CDE). The CDEs used the equity contributions to make loans to EHC Support Corporation totaling $18,200,000 to finance construction of the primary care facility and related parking structure. Each CDE issued two notes to EHC Support Corporation in September 2018. The notes bear interest at 1 percent and are interest only beginning December 1, 2018 through December 31, 2025, with principal and interest payable quarterly commencing on March 1, 2026 through December 31, 2052. Per the loan agreement, 100 percent of the membership interests, partnership interests and other equity interests are pledged as collateral through a grant of security interest on the loan.

Additionally, in September 2018 EHC Support Corporation and the Center entered into a Net Lease for the property that requires the Center to make lease payments to EHC Support Corporation commencing on the earlier of (i) October 1, 2019 and (ii) the date in which EHC Support Corporation substantially completes construction of the property. The lease expires in December 2043.

The transaction is subject to a put/call option. PNC NMIP has a put option whereby upon exercise of the option after the last day of the tax credit investment period, EHC Support Corporation is obligated to purchase PNC NMIP's 100 percent membership interest in KEIF for $1,000. At the end of the seven year tax credit investment period, EHC Support Corporation has a call option whereby if exercised, they have the right to purchase PNC NMIP's 100 percent membership interest in KEIF at fair value.

The tax credits associated with the transaction are contingent on the Center maintaining compliance with applicable portions of Section 42 of the Internal Revenue Code. Failure to maintain compliance or to correct noncompliance within a specified time period could result in recapture of previously tax credits plus penalties and interest.

10. Accounts Payable and Accrued Expenses and Accrued Compensation

Accounts payable and accrued expenses at June 30 consisted of the following:

	2019	2018
Pharmacy purchases and dispensing fees	$ 415,605	$ 331,547
Deferred grant revenue	99,000	200,714
Accrued health insurance related expense	34,141	60,405
Vendor accounts payable	271,013	224,737
Other accrued expenses	22,492	47,085
Total	$ 842,251	$ 864,488

Accrued compensation at June 30 consisted of the following:

	2019	2018
Accrued payroll	$ 270,080	$ 188,235
Accrued vacation	275,679	357,519
Total	$ 545,759	$ 545,754

11. NMTC Notes Payable

NMTC notes payable is as follows at June 30, 2019:

NMTC Notes Payable:	
Promissory Note A (CF CDE): Bearing interest at 1.0 percent per annum; interest only payments due quarterly until December 31, 2025; at which point interest and principal payments of $61,944 will be due quarterly until maturity on December 31, 2052.	$ 5,856,500
Promissory Note A (PIDC CDE): Bearing interest at 1.0 percent per annum; interest only payments due quarterly until December 31, 2025; at which point interest and principal payments of $68,644 will be due quarterly until maturity on December 31, 2052.	6,490,000
Promissory Note B (CF CDE): Bearing interest at 1.0 percent per annum; interest only payments due quarterly until December 31, 2025; at which point interest and principal payments of $27,960 will be due quarterly until maturity on December 31, 2052.	2,643,500
Promissory Note B (PIDC CDE): Bearing interest at 1.0 percent per annum; interest only payments due quarterly until December 31, 2025; at which point interest and principal payments of $31,837 will be due quarterly until maturity on December 31, 2052.	3,210,000
Total NMTC notes payable	$ 18,200,000

All of the notes payable above are collateralized by a Mortgage, Assignment of Leases and Rents, Security Agreement, and Fixture Filing and a loan and regulatory agreement that restricts the use of the property to those allowed as a qualified active low-income community business for the term of the note. The notes payable cannot be prepaid until September 2025.

Scheduled principal payments on long-term debt are as follows:

Years ending June 30:	
2020	$ -
2021	-
2022	-
2023	-
2024	-
Thereafter	18,200,000
Total	$ 18,200,000

The Center is subject to certain requirements and covenants related to the NMTC notes payable.

12. Line of Credit

The Center has a revolving line of credit of $1,000,000 from a financial institution which matures on July 29, 2020. The line of credit is secured by all assets of the Center. This agreement requires interest to be charged on the outstanding balance at the prime rate minus 0.50 percent (prime rate at June 30, 2019 and 2018 was 5.00 percent and 4.25 percent, respectively). At June 30, 2019 and 2018, there was no outstanding balance on the line of credit.

13. Grant Revenue

DHHS and Contract services and other grants revenue consists of the following for the years ended June 30:

	2019	2018
DHHS Grant Revenue:		
Community Health Centers - Section 330	$ 1,865,132	$ 1,794,132
Grants for new and expanded services under the Health Center Program	145,257	92,666
HIV Early Intervention Grants	566,908	584,444
Other grants	-	879
Total DHHS grant revenue	2,577,297	2,472,121
Contract Services and Other Grant Revenue		
Pennsylvania Department of Health:		
Immunization Grant	532,238	770,717
Community Primary Care Challenge Grants	-	149,512
Prenatal and Obstetric Expansion Grant	-	160,649
Community-Based Health Care Block Grant	300,000	-
Philadelphia Department of Commerce NED Grant	183,998	-
AIDS Activity Coordinating Office of Philadelphia, HIV Emergency Relief Project Grants	52,984	58,150
Health Partners Plans, Inc.:		
Community Health Worker Grant	62,812	70,123
Support for HRA Completion Initiative	-	78,000
Patient Centered Medical Home Grant	264,855	257,042
Other funders	301,684	314,556
Total contract services and other grant revenue	1,698,571	1,858,749
Total grant revenue	$ 4,275,868	$ 4,330,870

14. Functional Expenses

The Center provides healthcare and related services to individuals within its geographic location. Expenses related to providing these services for 2019 are as follows:

	Healthcare Services	General and Administrative	Fundraising	Total
Salaries and wages	$ 7,689,222	$ 1,621,860	$ 75,140	$ 9,386,222
Employee benefits	1,583,486	1,042,734	48,155	2,674,375
Pharmaceuticals	3,559,961	-	-	3,559,961
Consultant and contractual services	853,498	535,261	-	1,388,759
Depreciation and amortization	415,173	91,136	-	506,309
Occupancy	-	401,999	-	401,999
Consumable supplies	184,218	153,040	861	338,119
Professional fees	1,898	260,815	-	262,713
Other administrative expenses	174,080	679,059	11,991	865,130
Laboratory	153,688	-	-	153,688
Total	$ 14,615,224	$ 4,785,904	$ 136,147	$ 19,537,275

In 2018, the Center incurred approximately $14,900,000 of expenses related to program services, approximately $3,941,000 of expenses related to general and administrative, and approximately $103,000 of expenses related to fundraising.

15. Net Assets With Donor Restrictions

Net assets with donor restrictions held by the Center, and changes thereto, are summarized below, and are available for the following purposes as of June 30:

	2019			
	Beginning Balance	Contributions	Net Assets Released	Ending Balance
Operational support grants	$ 142,615	$ 550,034	$ (464,193)	$ 228,456

	2018			
	Beginning Balance	Contributions	Net Assets Released	Ending Balance
Operational support grants	$ 89,540	$ 259,794	$ (206,719)	$ 142,615

16. Pension Plan

The Center has a defined contribution pension plan (the Plan) covering all employees who meet certain eligibility requirements. The amount contributed to the Plan consists of a percentage of participants' compensation and a matching contribution, where applicable. Contributions to the Plan by the Center amounted to $417,717 and $384,417 for the years ended June 30, 2019 and 2018, respectively.

17. Operating Leases

The Center leased space under a ten-year noncancelable operating lease at 3156 Kensington Avenue, Philadelphia, Pennsylvania through November 2019. Minimum future lease payments under the noncancelable operating lease are as follows:

Year ending June 30:	
2020	$ 96,602
Total	$ 96,602

Rent expense for the years ended June 30, 2019 and 2018 amounted to $265,872 and $271,650, respectively, including utilities and other common charges.

18. Commitments and Contingencies

Medical and Dental Malpractice Claims Coverage

The Center is deemed to be an employee of the federal government under Section 224(h) of the Public Health Service (PHS) Act, 42, U.S.C. 233(h) as amended by the Federally Supported Health Centers Assistance Act of 1995. Section 224 of the PHS Act provides malpractice insurance coverage for all activities within the scope of its PHS grant under the Federal Tort Claims Act. This coverage is provided at no charge to the Center and there are no per occurrence or aggregate limits.

The Center believes it has adequate insurance coverage. To the best of the Center's knowledge, there are no asserted or unasserted claims which would exceed its insurance coverage.

Healthcare Industry

The healthcare industry is subject to numerous laws and regulations of federal, state and local governments. Compliance with these laws and regulations is subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time. Government activity continues to increase with respect to investigations and allegations concerning possible violations by healthcare providers of fraud and abuse statues and regulations, which could result in the imposition of significant fines and penalties as well as significant repayments for patient services previously billed. Management is not aware of any material incidents of noncompliance; however, the possible future financial effects of this matter on the Center, if any, are not presently determinable.

NMTC Construction Agreements

In July, 2018, EHC Support Corporation entered into a guaranteed maximum price contract totaling approximately $11,990,000 with Target Building Construction, Inc. (Target) for the major renovation of a building at 861 E. Allegheny Avenue, Philadelphia, PA (Allegheny Facility). In December, 2018, EHC Support Corporation entered into a guaranteed maximum price contract totaling approximately $4,035,000 with Target for the construction of a 5,000 square foot parking garage at 3222 H Street, Philadelphia, PA. Costs incurred on the construction agreements through June 30, 2019 were approximately $13,651,000.

In June, 2018, the Center received a grant in the amount of $600,000 with a grant period of July 1, 2018 through June 30, 2020 from the Pennsylvania Department of Health for the construction of the Allegheny Facility. In April, 2019, the Center made a draw for $300,000 which is included in contract services and other grants in the consolidated statements of operations and changes in net assets.

19. Liquidity and Availability

Financial assets available for general expenditure within one year of the consolidated balance sheets date, consist of the following at June 30, 2019:

Cash and cash equivalents	$ 7,974,341
Patient accounts receivable, net	845,145
Dispensary accounts receivable	495,446
Assets whose use is limited	2,200,000
Long-term investments	2,030,296
Total	$ 13,545,228

The Center has certain assets that have been designated as to use by the Board of Directors, however these assets could be used for general expenditure if necessary and therefore have been included in the table above.

As part of the Center's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due. In addition, the Center invests excess cash in investments.

Additionally, the Center maintains a $1,000,000 line of credit, as discussed in more detail in Note 12. As of June 30, 2019, $1,000,000 was available on the Center's line of credit.

20. Subsequent Events

In December, a novel strain of coronavirus was reported in Wuhan, Hubei province, China. In the first several months of 2020, the virus, SARS-CoV-2, and resulting disease, COVID-19, spread to the United States. The COVID-19 pandemic is having significant effects on global markets, supply chains, businesses and communities. The Center's evaluation of the effects of these events is ongoing as of the date the accompanying consolidated financial statements were available to be issued. COVID-19 has impacted various parts of the Center’s 2020 operations and financial performance including but not limited to additional costs for emergency preparedness, disease control and containment, occasional shortages of personnel, supply chain disruption, and declines in revenue related to decreases in volumes of certain revenue streams (particularly dental revenue and behavioral health revenue). In-person Medical office visits are close to 50% of normal. Combined with telemedicine, total Medical encounters are up by 4% of normal. Behavioral health encounters are continuing through telemedicine. Total Behavioral health encounters are down by 24% of normal. Dental office visits have been limited to emergencies only. Combined with telemedicine, total Dental encounters are down by 84% of normal.

Management has mitigated the adverse impact on revenue by rapidly changing workflows to accommodate telemedicine visits whenever feasible. The extent of the future impact will depend on future developments, including the duration and spread of the outbreak and related governmental or other regulatory actions. The Center intends to take the necessary steps to maximize relief under all possible federal, state and local government programs and grants. Current plans are to have a gradual increase in face-to-face patient encounters during the second half of 2020.

In April 2020, the United States Congress passed the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), which provides relief funds to healthcare providers on the front lines of the COVID-19 pandemic. This funding is to be used to support healthcare-related expenses or lost revenue attributable to COVID-19 and to ensure uninsured Americans can get testing and treatment for COVID-19. In April 2020, approximately 30 percent of the relief funds were distributed based on the healthcare provider's share of total Medicare FFS reimbursements in 2019. All healthcare providers that received Medicare fee-for-service (FFS) reimbursements in 2019 are eligible for the relief funds. The Center is required to make certain certifications and has certain reporting requirements as a condition of receiving the funds. In addition, healthcare providers must agree not to seek collection of out-of-pocket payments from a COVID-19 patient that are greater than what the patient would have otherwise been required to pay if the care had been provided by an in-network provider. The Center also received additional CARES Act supplemental funding through their existing Section 330 grant, as well as the Ryan White grant. In March and April 2020, the Center received approximately $1,241,000 of relief funds under the CARES Act.

In April 2020, the Center applied for and was approved for a loan pursuant to the Paycheck Protection Program (PPP), administered by the U.S. Small Business Administration. The PPP was authorized in the CARES Act. The Company received the loan proceeds on April 17, 2020. The principal amount of the loan is $2,200,912 and there are no collateral or guarantee requirements. Under the terms of the PPP, payments will be deferred to six months from disbursement, the loan will bear interest at 1 percent per annum, and will mature two years from disbursement. Subject to certain eligibility and certification requirements under the PPP, some or all of the loan amount may be forgiven; however, the amount and timing of any forgiveness is uncertain.

Due diligence continues for a future Community Center construction project at the Kensington location, to be funded by a second New Markets Tax Credits (NMTC) transaction. Given the uncertainty related to construction projects during the current health pandemic, the closing date has not yet been determined.

Esperanza Health Center, Inc. and Controlled Entity

Consolidating Balance Sheet Schedule
June 30, 2019

	Esperanza Health Center, Inc.	Esperanza Health Center Support Corporation	Consolidation Eliminations	Consolidation Consolidated
Assets				
Current Assets				
Cash and cash equivalents	$ 2,358,517	$ 5,615,824	$ -	$ 7,974,341
Patient accounts receivable, net	845,145	-	-	845,145
Dispensary accounts receivable	495,446	-	-	495,446
Other receivables	128,740	-	-	128,740
Prepaid expenses and other current assets	294,213	-	-	294,213
Total current assets	4,122,061	5,615,824	-	9,737,885
Property and Equipment, Net	8,235,505	15,574,728	-	23,810,233
Assets Whose Use is Limited	2,200,000	-	-	2,200,000
Long-Term Investments	2,030,296	-	-	2,030,296
NMTC Leverage Loan	12,346,500	-	-	12,346,500
NMTC CDE Reserve Fund	-	703,214	-	703,214
Security Deposits	136,144	-	-	136,144
Total assets	$ 29,070,506	$ 21,893,766	$ -	$ 50,964,272
Liabilities and Net Assets				
Current Liabilities				
Accounts payable and accrued expenses	$ 743,251	$ 99,000	$ -	$ 842,251
Accounts payable, construction	3,554,051	-	-	3,554,051
Accrued compensation	545,759	-	-	545,759
Total current liabilities	4,843,061	99,000	-	4,942,061
NMTC Notes Payable	-	18,200,000	-	18,200,000
Total liabilities	4,843,061	18,299,000	-	23,142,061
Net Assets				
Without donor restrictions:				
Undesignated	21,798,989	3,594,766	-	25,393,755
Board designated reserve	2,200,000	-	-	2,200,000
Total net assets without donor restrictions	23,998,989	3,594,766	-	27,593,755
With donor restrictions	228,456	-	-	228,456
Total net assets	24,227,445	3,594,766	-	27,822,211
Total liabilities and net assets	$ 29,070,506	$ 21,893,766	$ -	$ 50,964,272

Esperanza Health Center, Inc. and Controlled Entity

Consolidating Schedule of Operations and Changes in Net Assets
Year Ended June 30, 2019

	Esperanza Health Center, Inc.	Esperanza Health Center Support Corporation	Consolidation Eliminations	Consolidated
Unrestricted Revenue and Support				
Revenue:				
Patient services, net of contractual adjustments	$ 16,602,122	$ -	$ -	$ 16,602,122
Provision for bad debts	(230,983)	-	-	(230,983)
Net patient services revenue less provision for bad debts	16,371,139	-	-	16,371,139
Other revenue	320,214	11,000	-	331,214
Net assets released from restriction	464,193	-	-	464,193
Total revenue	17,155,546	11,000	-	17,166,546
Support:				
DHHS grants	2,577,297	-	-	2,577,297
Contract services and other grants	1,698,571	-	-	1,698,571
Contributions	347,916	-	-	347,916
Total support	4,623,784	-	-	4,623,784
Total unrestricted revenue and support	21,779,330	11,000	-	21,790,330
Expenses				
Salaries and wages	9,386,222	-	-	9,386,222
Employee benefits	2,674,375	-	-	2,674,375
Pharmaceuticals	3,559,961	-	-	3,559,961
Consultant and contractual services	990,926	397,833	-	1,388,759
Depreciation and amortization	506,309	-	-	506,309
Occupancy	401,579	420	-	401,999
Consumable supplies	338,119	-	-	338,119
Professional fees	262,713	-	-	262,713
Other administrative expenses	865,130	-	-	865,130
Laboratory	153,688	-	-	153,688
Total expenses	19,139,022	398,253	-	19,537,275
Operating income (loss)	2,640,308	(387,253)	-	2,253,055
Investment Income	117,827	6,099	-	123,926
Revenues in excess of (less than) expenses	2,758,135	(381,154)	-	2,376,981
Equity Transfer	(3,975,920)	3,975,920	-	-
(Decrease) increase in net assets without donor restrictions	(1,217,785)	3,594,766	-	2,376,981
Net Assets With Donor Restrictions				
Contributions for program services	550,034	-	-	550,034
Net assets released from restriction	(464,193)	-	-	(464,193)
Increase in net assets with donor restrictions	85,841	-	-	85,841
(Decrease) increase in net assets	(1,131,944)	3,594,766	-	2,462,822
Net Assets				
Beginning	25,359,389	-	-	25,359,389
Ending	$ 24,227,445	$ 3,594,766	$ -	$ 27,822,211

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Grant Period	Amount Passed-Through to Subrecipients	Total Federal Expenditures
United States Department of Health and Human Services					
Health Center Program Cluster:					
Consolidated Health Center (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, and Public Housing Primary Care)					
Community Health Centers - Section 330	93.224	H80CS06644	01/01/18 - 12/31/18	$ -	$ 925,466
Community Health Centers - Section 330	93.224	H80CS06644	01/01/19 - 12/31/19	-	939,666
Total Health Center Program					1,865,132
Grants for New and Expanded Services under the Health Center Program					
FY 17 Quality Improvement Award	93.527	14H80CS06644	08/09/17 - 08/08/18	-	71,570
FY 18 Quality Improvement Award	93.527	14H80CS06644	08/01/18 - 07/31/19	-	73,687
SUD-MH Supplemental Grant	93.527	14H80CS06644	09/01/18 - 08/31/19	-	180,467
AIMS Supplemental Grant	93.527	17H80CS06644	09/01/17 - 08/31/18	-	70,395
Grants for New and Expanded Services under the Health Center Program					396,119
Total Health Center Program Cluster					2,261,251
Grants to provide outpatient early intervention services with respect to HIV disease:					
Ryan White Part C	93.918	H76HA00725	01/01/18 - 12/31/18	-	296,056
Ryan White Part C	93.918	H76HA00725	01/01/19 - 12/31/19	-	267,692
Total grants to provide outpatient early intervention services with respect to HIV disease					563,748
Passed-Through Philadelphia Department of Public Health AIDS Activities Coordinating Office					
HIV Emergency Relief Project Grants	93.914	H89HA00013	03/01/18 - 02/28/19	-	33,386
HIV Emergency Relief Project Grants	93.914	H89HA00013	03/01/19 - 02/28/20	-	20,042
Total passed-through The AIDS Activities Coordination Office - HIV Emergency Relief Project Grants					53,428
Total United States Department of Health and Human Services					2,878,427
United States Department of Housing and Urban Development					
Passed-through City of Philadelphia Division of Housing and Community Development:					
Housing Opportunities for Persons With AIDS Contract #1920318	14.241	n/a	10/01/18 - 09/30/19	-	183,988
Total United States Department of Housing and Urban Development					183,988
Total expenditures of federal awards					$ 3,062,415

See notes to expenditures of federal awards

1. Basis of Presentation

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

Federally funded amounts that are passed through state and local government agencies are reported as federal awards. Expenditure amounts are classified based on information provided by the pass-through agencies at the time of preparation of the Schedule.

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 allowed or are limited as to reimbursement. Pass-through entity identifying numbers are presented when available.

3. Indirect Cost Rate

The Center has elected not to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance, even though it does not have a federally negotiated indirect cost rate.

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

To the Board of Directors of
Esperanza Health Center, Inc. and Controlled Entity

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 Esperanza Health Center, Inc. and Controlled Entity (the Center), which comprise the consolidated balance sheet as of June 30, 2019, and the related consolidated statements of operations and changes in net assets and cash flows for the year then ended, and have issued our report thereon dated June 30, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Center'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 Center's internal control. Accordingly, we do not express an opinion on the effectiveness of the Center's internal control.

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. However as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's consolidated financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2019-001 to be a material weakness.

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. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2019-002 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Center'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*.

We noted certain matters that we reported to management of the Trust in a separate letter dated June 30, 2020.

Center's Response to Findings

The Center's responses to the findings identified in our audit report are described in the corrective action plan. The Center's responses were not subjected to the auditing procedures applied in the audit of the consolidated financial statements and, accordingly we express no opinion on it.

Purpose of This Report

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

Baker Tilly Virchow Krause, LLP

Iselin, New Jersey
June 30, 2020

Independent Auditors' Report on Compliance for the Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance

To the Board of Directors of
Esperanza Health Center, Inc. and Controlled Entity

Report on Compliance for the Major Federal Program

We have audited Esperanza Health Center, Inc. and Controlled Entity's (the Center) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Center's major federal program for the year ended June 30, 2019. The Center's major federal program is 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 award applicable to its federal program.

Auditors' Responsibility

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

Opinion on the Major Federal Program

In our opinion, Esperanza Health Center, Inc. and Controlled Entity 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 program 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 the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for its 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 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 and 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.

Baker Tilly Virchow Krause, LLP

Iselin, New Jersey
June 30, 2020

Section I - Summary of Auditors' Results

Consolidated Financial Statements

Type of auditors' report issued on whether the consolidated financial statements audited were prepared in accordance with GAAP: Unmodified

Internal control over financial reporting:

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

Noncompliance material to consolidated financial statements noted? ______ yes __X__ no

Federal Awards

Internal control over major federal programs:

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

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

Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance? ______ yes __X__ no

Identification of major federal program:

CFDA Number(s)	Name of Federal Program or Cluster
93.224 & 93.527	Health Center Program Cluster

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

Finding 2019-001 - Financial Reporting Process, Material Weakness

Criteria: A properly designed system of internal control over financial reporting should include procedures to ensure accounts are properly reconciled and reviewed.

Condition/Context: During our audit, a significant amount of audit adjustments and post-close entries were recorded. This is indicative of a failure of controls being implemented over financial reporting which caused the following:

- Entries to accounts impacting numerous financial statement lines including cash and cash equivalents, patient, dispensary, and other accounts receivable, property and equipment, assets whose use is limited, long-term investments, accounts payable, expenses and equity transfers which were not timely or accurately recorded.

Effect: Significant adjustments were proposed by both client and auditor and recorded during the audit to reflect the Center's consolidated financial statements in accordance with generally accepted accounting principles.

Cause: The Center was understaffed due to turnover within the accounting department and is in process of bringing the accounting function in-house during 2019.

Recommendation: We recommend that management continue to implement procedures to ensure that its internal books and records are reconciled and properly adjusted and reviewed timely with documentation of review maintained to ensure the accuracy of interim and year-end financial reporting.

Views of Responsible Officials and Planned Corrective Actions: Management is in the continual process of attempting to recruit talent for the accounting department. Procedures are being developed for the monthly review and reconciliation of general ledger accounts

Contact Person Responsible for Corrective Action: Kenneth D. Smith, Associate Finance Director

Anticipated Completion Date: June 30, 2020

Finding 2019-002 - Patient and Dispensary Accounts Receivable, Significant Deficiency

Criteria: A properly designed system of internal control over financial reporting should include procedures to ensure patient and dispensary accounts receivable are reconciled to the general ledger, analyzed and recorded at their net realizable value.

Condition/Context: During our procedures, it was identified that the Center does not have a valuation process to accurately record its patient accounts receivable at net realizable value. Rather, management required assistance to adjust the net realizable value of patient accounts receivable to actual based on a review of subsequent cash receipts after commencement of the audit and therefore does not have a process for accurate or timely financial reporting. In addition, adjustments were made to dispensary accounts receivable based on unreconciled differences between actual and estimated monthly activity.

Effect: Potential for untimely write offs or reserves of patient accounts receivable and inaccurate reporting of both patient and dispensary accounts receivable.

Cause: The Center is in the process of gaining experience with the Centricity software. In addition, the Center was understaffed due to turnover within the accounting department and is in process of bringing the accounting function in-house during 2019.

Recommendation: We recommend finance personnel consider evaluating the net realizable value of accounts receivable based upon an evaluation of portfolios of patient receivables with similar characteristics (i.e. Payor class or type). In preparation for Accounting Standards Update 2014-09: *Revenue From Contracts With Customers (Topic 606)*, effective for the fiscal year ending June 30, 2021, we recommend management evaluate the existing methodology and develop a balance sheet approach by applying explicit and implicit price concessions to each portfolio to reflect accounts receivable at their net realizable value based on contract terms and historical trends. This would also include management recording accounts receivable, before explicit and implicit price concessions based on the aged accounts receivable generated from the patient accounting system, and prepare a monthly or quarterly reconciliation of the aged accounts receivable report to the general ledger on a monthly basis. Management should also evaluate its current systems used and processes. In addition, we recommend that management gain an understanding of the monthly transactions for each individual pharmacy they have contracted under the 340b dispensary program and to create a process for reconciling and adjusting those accounts to actual on a monthly basis.

Views of Responsible Officials and Planned Corrective Actions: Management is in the continual process of attempting to recruit talent for the accounting department. Procedures are being developed to create a reliable balance sheet valuation model for patient accounts receivable, as well as developing a better process to adjust dispensary receivables to actual on a monthly basis.

Contact Person Responsible for Corrective Action: Kenneth D. Smith, Associate Finance Director

Anticipated Completion Date: June 30, 2020

Section III - Federal Award Findings and Questioned Costs

None.

Section IV - Summary Schedule of Prior Year Audit Findings

None.

Esperanza Health Center, Inc. and Controlled Entity

Housing Opportunities for Persons With Aids, City of Philadelphia
Contract Number (1920318)
Schedule of Source and Status of Funds
For the Period From July 1, 2018 to June 30, 2019

	CDBG Funds	Program Income	Other City Funds	Non-City Funds	Total
Total Contract (Final authorized budget)	$ 250,000				$ 250,000
Less:					
Funds drawn down, prior year *	-				-
Funds drawn down, current year *	183,988				183,988
Total funds drawn	183,988				183,988
Funds available for draw	$ 66,012	None	None	None	$ 66,012
Total funds drawn	$ 183,988				$ 183,988
Add:					
Program income		-			-
Total funds received	183,988	-			183,988
Less:					
Program income expended		-			-
Funds applied, prior year *	-				-
Funds applied, current year *	183,988				183,988
Total funds applied	183,988	-			183,988
Total funds due from funding source	None	None	None	None	None
Total funds available for disposition	$ 66,012	None	None	None	$ 66,012

* For purposes of this schedule, current year represents the period from July 1, 2018 to June 30, 2019

Esperanza Health Center, Inc. and Controlled Entity

Housing Opportunities for Persons With Aids, City of Philadelphia
Contract Number (1920318)
Schedule of Program Expenditures
For the Period From July 1, 2018 to June 30, 2019

	Budget	Expenditures Prior to 7/1/18	Expenditures 7/1/18 to 6/30/2019	Expenditures Cumulative to 6/30/19
Expenditures				
Direct personnel	$ -	$ -	$ -	$ -
Direct fringe benefits	-	-	-	-
Professional services	-	-	-	-
Travel	-	-	-	-
Occupancy	-	-	-	-
Consumable supplies	-	-	-	-
Construction	250,000	-	183,988	183,988
Indirect costs	-	-	-	-
Total	$ 250,000	$ -	$ 183,988	$ 183,988

Esperanza Health Center, Inc. and Controlled Entity

Housing Opportunities for Persons With Aids, City of Philadelphia
Contract Number (1920318)
Reconciliation Schedule
For the Period From July 1, 2018 to June 30, 2019

	Amount Per Books and Records	Amount Per Subrecipient Invoice	Difference
Contract Amount	$ 250,000	$ 250,000	$ -
Program Costs			
Prior Year *	-	-	-
Current Year *	183,988	183,988	-
Cumulative	$ 183,988	$ 183,988	$ -
Funds Drawn Down			
Prior Year *	$ -	$ -	$ -
Current Year *	183,988	183,988	-
Cumulative	$ 183,988	$ 183,988	$ -

* For purposes of this schedule, current year represents the period of July 1, 2018 to June 30, 2019

Esperanza Health Center, Inc. and Controlled Entity

Housing Opportunities for Persons With Aids, City of Philadelphia
Contract Number (1920318)
Schedule of Program Income
For the Period From July 1, 2018 to June 30, 2019

	Sales Proceeds	Other (Specify)
Program Income		
Cumulative to 6/30/18	$ -	$ -
Less:		
Program income expended in prior years	$ -	$ -
Beginning Balance July 1, 2018	$ -	$ -
Add:		
Program income received in current year	$ -	$ -
Less:	$ -	$ -
Program income expended in current year		
Ending Balance as of June 30, 2019	$ -	$ -

Esperanza Health Center

Main Business Office/Hunting Park Site | 4417 N. 6th Street, Philadelphia, PA 19140-2319
Kensington Site | 861 E. Allegheny Avenue, Philadelphia, PA 19134-2401
Fifth Street Site | 2940 N. 5th Street, Philadelphia, PA 19133-2801
Administrative: (215) 302-3150 | **Medical:** (215) 302-3600 | **Dental:** (215) 302-3156
Fax: (215) 329-2369 | **esperanzahealth.com**

Esperanza Health Center Management Response to 2019 Single Audit Finding

Finding 2019-001 - Financial Reporting Process, Material Weakness

Views of Responsible Officials and Planned Corrective Actions: Management is in the continual process of reviewing procedures and staffing. The Board Finance Committee will receive updates on progress at regular monthly meetings. Accounting and Financial Reporting service are being converted and staffed in-house. Accounting software is being upgraded to improve grant tracking. Procedures are being developed for the timely review and accurate reconciliation of general ledger accounts monthly.

Contact Person Responsible for Corrective Action: Kenneth D. Smith, Associate Finance Director, ken.smith@esperanzahealth.com, Tel: 215-302-3164

Anticipated Completion Date: June 30, 2020

Finding 2019-002 - Patient and Dispensary Accounts Receivable, Significant Deficiency

Views of Responsible Officials and Planned Corrective Actions: Management is in the continual process of reviewing procedures and staffing. The Board Finance Committee will receive updates on progress at regular monthly meetings. Accounting and Financial Reporting service are being converted and staffed in-house. Accounting software is being upgraded to improve grant tracking. Procedures are being developed to create a reliable balance sheet valuation model for patient accounts receivable in preparation for ASU Update 2014-09: *Revenue from Contracts with Customers*, as well as developing a better process to verify actual dispensary receivables from third party dispensaries on a timely basis each month.

Contact Person Responsible for Corrective Action: Kenneth D. Smith, Associate Finance Director, ken.smith@esperanzahealth.com, Tel: 215-302-3164

Anticipated Completion Date: June 30, 2020

Kenneth D. Smith
Associate Finance Director
08/07/2020