

Chase Brexton Health Services, Inc.

Independent Auditor's Reports and
Consolidated Financial Statements

June 30, 2019 and 2018

Chase Brexton Health Services, Inc.

June 30, 2019 and 2018

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Independent Auditor's Report

Board of Directors
Chase Brexton Health Services, Inc.
Baltimore, Maryland

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Chase Brexton Health Services, Inc. as of June 30, 2019 and 2018, and the results of its operations, the changes in net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in *Note 18* to the financial statements, in 2019, the Organization adopted Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The schedule of expenditures of federal awards required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, as listed in the table of contents, 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 Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating schedules, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 31, 2019, on our consideration of Chase Brexton Health Services, Inc.'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 Chase Brexton Health Services, Inc.'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 Chase Brexton Health Services, Inc.'s internal control over financial reporting and compliance.

BKD, LLP

Springfield, Missouri
December 31, 2019

Chase Brexton Health Services, Inc.
Consolidated Balance Sheets
June 30, 2019 and 2018

Assets

	<u>2019</u>	<u>2018</u>
Current Assets		
Cash and cash equivalents	\$ 7,040,367	\$ 7,933,586
Patient accounts receivable, net of allowance; 2019 – \$500,000, 2018 – \$510,000	5,203,204	5,043,741
Grants and other receivables	3,175,032	3,332,714
Notes receivable – current	145,313	-
Supplies	1,901,683	2,550,238
Prepaid expenses and other	849,017	739,187
	<u>18,314,616</u>	<u>19,599,466</u>
Assets Limited As To Use		
Deferred compensation plan assets	158,807	149,048
Externally restricted for external fees	25,565	37,900
	<u>184,372</u>	<u>186,948</u>
Investments		
Long-term investments	22,519,302	18,347,855
Notes Receivable	<u>6,095,787</u>	<u>6,241,100</u>
Property and Equipment, At Cost		
Land	964,689	964,689
Buildings and leasehold improvements	45,362,702	44,778,202
Equipment	9,892,772	9,366,399
Furniture and fixtures	1,365,655	1,365,655
Construction in progress	144,344	64,862
	<u>57,730,162</u>	<u>56,539,807</u>
Less accumulated depreciation	25,532,670	21,225,033
	<u>32,197,492</u>	<u>35,314,774</u>
Contributions Receivable	<u>25,000</u>	<u>25,000</u>
Total assets	<u>\$ 79,336,569</u>	<u>\$ 79,715,143</u>

Liabilities and Net Assets

	<u>2019</u>	<u>2018</u>
Current Liabilities		
Current maturities of long-term debt	\$ 1,818,239	\$ 1,276,314
Accounts payable	3,161,844	4,192,720
Accrued expenses	2,623,788	2,909,267
Estimated self-insurance costs	<u>251,305</u>	<u>-</u>
Total current liabilities	7,855,176	8,378,301
Accrued Rent Payable	902,276	1,022,625
Long-Term Debt	9,524,732	9,969,744
Deferred Compensation	<u>158,807</u>	<u>149,048</u>
Total liabilities	<u>18,440,991</u>	<u>19,519,718</u>
Net Assets		
Without donor restrictions	60,365,639	59,720,751
With donor restrictions	<u>529,939</u>	<u>474,674</u>
Total net assets	<u>60,895,578</u>	<u>60,195,425</u>
Total liabilities and net assets	<u>\$ 79,336,569</u>	<u>\$ 79,715,143</u>

Chase Brexton Health Services, Inc.
Consolidated Statements of Operations
Years Ended June 30, 2019 and 2018

	2019	2018
Revenues, Gains and Other Support Without Donor Restrictions		
Patient service revenue (net of contractual discounts and allowances)	\$ 89,828,424	\$ 78,422,537
Provision for uncollectible accounts	1,965,246	1,962,785
Net patient service revenue less provision for uncollectible accounts	87,863,178	76,459,752
Grant revenue	8,999,653	9,271,766
Contribution revenue	278,616	340,606
Other	103	374,537
Net assets released from restrictions used for operations	810,298	363,126
 Total revenues, gains and other support without donor restrictions	 97,951,848	 86,809,787
Expenses and Losses		
Salaries and wages	31,739,000	30,548,284
Employee benefits	5,763,683	5,584,952
Purchased services and professional fees	1,242,871	1,277,111
Supplies and other	11,437,250	10,568,267
Pharmacy expenses	44,814,139	38,317,461
Rent	1,543,393	1,471,067
Depreciation	4,332,797	4,370,213
Interest expense	300,938	303,829
Loss on disposal of property and equipment	5,091	-
 Total expenses and losses	 101,179,162	 92,441,184
Operating Loss	(3,227,314)	(5,631,397)
Other Income		
Investment return, net	1,314,507	1,710,761
Gain on investment in equity investee	2,557,695	2,434,114
 Total other income	 3,872,202	 4,144,875
Excess (Deficiency) of Revenues Over Expenses	644,888	(1,486,522)
 Grants for acquisition of property and equipment	 -	 85,000
Increase (Decrease) in Net Assets Without Donor Restrictions	\$ 644,888	\$ (1,401,522)

Chase Brexton Health Services, Inc.
Consolidated Statements of Changes in Net Assets
Years Ended June 30, 2019 and 2018

	2019	2018
Net Assets Without Donor Restrictions		
Excess (deficiency) of revenues over expenses	\$ 644,888	\$ (1,486,522)
Grants for acquisition of property and equipment	-	85,000
Increase (decrease) in net assets without donor restrictions	644,888	(1,401,522)
Net Assets With Donor Restrictions		
Contributions	865,563	448,408
Net assets released from restriction	(810,298)	(363,126)
Increase in net assets with donor restrictions	55,265	85,282
Change in Net Assets	700,153	(1,316,240)
Net Assets, Beginning of Year	60,195,425	61,511,665
Net Assets, End of Year	\$ 60,895,578	\$ 60,195,425

Chase Brexton Health Services, Inc.
Consolidated Statements of Cash Flows
Years Ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Operating Activities		
Change in net assets	\$ 700,153	\$ (1,316,240)
Items not requiring (providing) cash		
Depreciation and amortization	4,397,477	4,434,893
Net realized and unrealized (gain) loss on investments	45,499	(902,208)
Grants for acquisition of property and equipment	-	(85,000)
Loss on disposal of property and equipment	5,091	-
Gain on investment in equity investee	(2,557,695)	(2,434,114)
Changes in		
Patient accounts receivable, net	(159,463)	(450,820)
Grants and other receivables	157,682	(941,371)
Contributions receivable	-	(2,500)
Prepaid expenses and other	(109,830)	(89,649)
Supplies	648,555	(751,330)
Accounts payable and accrued expenses	(641,090)	841,394
Net cash provided by (used in) operating activities	<u>2,486,379</u>	<u>(1,696,945)</u>
Investing Activities		
Purchase of investments	(4,294,644)	(846,690)
Proceeds from disposition of investments	67,939	33,620
Change in assets limited as to use	12,335	12,428
Distributions from equity investee	2,557,695	2,434,114
Purchase of property and equipment	(222,308)	(1,516,116)
Net cash provided by (used in) investing activities	<u>(1,878,983)</u>	<u>117,356</u>
Financing Activities		
Proceeds from grants for acquisition of property and equipment	-	85,000
Principal payments on long-term debt	(1,500,615)	(1,055,450)
Net cash used in financing activities	<u>(1,500,615)</u>	<u>(970,450)</u>
Decrease in Cash and Cash Equivalents	(893,219)	(2,550,039)
Cash and Cash Equivalents, Beginning of Year	<u>7,933,586</u>	<u>10,483,625</u>
Cash and Cash Equivalents, End of Year	<u>\$ 7,040,367</u>	<u>\$ 7,933,586</u>
Supplemental Cash Flows Information		
Interest paid	\$ 300,938	\$ 303,829
Property and equipment acquisitions included in accounts payable and accrued expenses	\$ 39,702	\$ 574,252
Property and equipment acquired through capital leases	\$ 1,532,848	\$ 884,659

Chase Brexton Health Services, Inc.
Notes to Consolidated Financial Statements
June 30, 2019 and 2018

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Chase Brexton Health Services, Inc. (the “Health Center”) primarily earns revenues by providing medical care, pharmaceuticals, mental health services and dental services through clinics located in Baltimore City, Baltimore County, Howard County, Anne Arundel County and Talbot County, Maryland.

Chase Brexton Realty, Inc. (CBR), a 501(c)(3) nonprofit organization was formed in September 2012. The Health Center is the controlling entity of CBR as it operates exclusively for the benefit of the Health Center. CBR was formed in conjunction with the New Market Tax Credit transaction (see *Note 16*).

Principles of Consolidation

The consolidated financial statements include the accounts and transactions of the Health Center and CBR (collectively, the “Organization”). All significant intercompany transactions and 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 the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Organization considers all liquid investments, other than those limited as to use, with original maturities of three months or less to be cash equivalents. At June 30, 2019, the Organization’s cash accounts exceeded federally insured limits by approximately \$1,609,000.

Additionally, the Organization has entered into an agreement with a local financial institution to purchase fully collateralized U.S. government securities with the Organization’s sweep accounts. At June 30, 2019, the amount held in sweep and money market accounts was approximately \$5,179,000.

Chase Brexton Health Services, Inc.
Notes to Consolidated Financial Statements
June 30, 2019 and 2018

Investments and Investment Return

Investments in equity securities having a readily determinable fair value and in all debt securities are carried at fair value. The investment in equity investee is reported on the equity method of accounting. Other investments are valued at the lower of cost (or fair value at time of donation, if acquired by contribution) or fair value. Investment return includes dividend, interest and other investment income; realized and unrealized gains and losses on investments carried at fair value; and realized gains and losses on other investments, less external and direct internal investment expense.

Investment return that is initially restricted by donor stipulation and for which the restriction will be satisfied in the same year is included in net assets without donor restrictions. Other investment return is reflected in the consolidated statements of operations and changes in net assets as with or without donor restrictions based upon the existence and nature of any donor or legally imposed restrictions.

Assets Limited as to Use

Assets limited as to use include (1) deferred compensation plan assets and (2) assets restricted by third parties for external fees.

Patient Accounts Receivable

Accounts receivable are reduced by an allowance for uncollectible accounts. In evaluating the collectability of accounts receivable, the Organization analyzes its past history and identifies trends for each of its major payer sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management regularly reviews data about these major payer sources of revenue in evaluating the sufficiency of the allowance for uncollectible accounts.

For receivables associated with services provided to patients who have third-party coverage, the Organization analyzes contractually due amounts and provides an allowance for uncollectible accounts and a provision for uncollectible accounts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payer has not yet paid, or for payers who are known to be having financial difficulties that make the realization of amounts due unlikely).

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

Chase Brexton Health Services, Inc.
Notes to Consolidated Financial Statements
June 30, 2019 and 2018

The Organization's allowance for uncollectible accounts for self-pay patients is 79 percent and 86 percent of self-pay accounts receivable at June 30, 2019 and 2018, respectively. The Organization's write-offs decreased approximately \$38,000 from approximately \$2,013,000 for the year ended June 30, 2018, to approximately \$1,975,000 for the year ended June 30, 2019.

Supplies

The Organization states supply inventories at the lower of cost, determined using the first-in, first-out method, or net realizable value.

Property and Equipment

Property and equipment acquisitions are recorded at cost and are depreciated on a straight-line basis over the estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives.

The estimated useful lives for each major depreciable classification of property and equipment are as follows:

Buildings and leasehold improvements	10–40 years
Equipment	3–15 years
Furniture and fixtures	3–15 years

Certain property and equipment have been purchased with grant funds received from various federal agencies. Such items may be reclaimed by the federal government if not used to further the grant's objectives.

Donations of property and equipment are reported at fair value as an increase in net assets without donor restrictions unless use of the assets is restricted by the donor. Monetary gifts that must be used to acquire property and equipment are reported as restricted support. The expiration of such restrictions is reported as an increase in net assets without donor restrictions when the donated asset is placed in service.

Long-Lived Asset Impairment

The Organization evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value.

No asset impairment was recognized during the years ended June 30, 2019 and 2018.

Chase Brexton Health Services, Inc.
Notes to Consolidated Financial Statements
June 30, 2019 and 2018

Debt Issuance Costs

Debt issuance costs represent costs incurred in connection with the issuance of long-term debt. Such costs are amortized over the term of the respective debt using the straight-line method.

Net Assets With Donor Restrictions

Net assets with donor restrictions are those whose use by the Organization has been limited by donors to a specific time period or purpose.

Self-Insurance

Beginning January 1, 2019, the Organization has elected to self-insure certain costs related to employee health programs. Costs resulting from noninsured losses are charged to income when incurred. The Organization has purchased insurance that limits its exposure for individual claims.

Net Patient Service Revenue

The Organization has agreements with third-party payers that provide for payments to the Organization at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered and includes estimated retroactive revenue adjustments. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such estimated amounts are revised in future periods as adjustments become known.

Pharmacy Revenue

Pharmacy revenue is recognized as pharmaceuticals are dispensed. The Health Center has a network of participating pharmacies that dispense the pharmaceuticals to its patients under contract arrangement with the Health Center as well as four in-house pharmacies. The Health Center participates in the 340B “Drug Discount Program” which enables qualifying health care providers to purchase drugs from pharmaceutical suppliers at a substantial discount. The 340B Drug Discount Program is managed by the Health Resources and Services Administration (HRSA) Office of Pharmacy Affairs. The Health Center earns revenue under this program by purchasing pharmaceuticals at a reduced cost to fill prescriptions to qualified patients. Reported 340B revenue consists of the pharmacy reimbursements, net of the initial purchase price of the drugs.

Chase Brexton Health Services, Inc.
Notes to Consolidated Financial Statements
June 30, 2019 and 2018

	2019	2018
Gross receipts	\$ 63,467,219	\$ 54,720,986
Drug replenishment costs	(37,492,174)	(32,882,767)
Administrative and filling fees	(564,463)	(277,473)
	\$ 25,410,582	\$ 21,560,746

The 340B gross receipts are included in patient service revenue on the consolidated statements of operations. The drug replenishment costs and administrative and filling fees are included in pharmacy expenses on the consolidated statements of operations. The net 340B pharmacy revenue from this program is used in furtherance of the Organization's mission.

Government Grants

Support funded by grants is recognized as the Organization performs the contracted services or incurs outlays eligible for reimbursement under the grant agreements. Grant activities and outlays are subject to audit and acceptance by the granting agency and, as a result of such audit, adjustments could be required.

Contributions

Gifts of cash and other assets received without donor stipulations are reported as revenue and net assets without donor restrictions. Gifts received with a donor stipulation that limits their use are reported as revenue and net assets with donor restrictions. When a donor-stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of operations as net assets released from restrictions. Gifts having donor stipulations which are satisfied in the period the gift is received are reported as revenue and net assets without donor restrictions.

Donations of property and equipment are recorded as support at their estimated fair value at the date of donation. Gifts of land, buildings, equipment and other long-lived assets are reported as revenue and net assets without donor restrictions unless explicit donor stipulations specify how such assets must be used, in which case the gifts are reported as revenue and net assets with donor restrictions. Absent explicit donor stipulations for the time long-lived assets must be held, expirations of restrictions resulting in reclassification of net assets with donor restrictions as net assets without donor restrictions are reported when the long-lived assets are placed in service.

Chase Brexton Health Services, Inc.
Notes to Consolidated Financial Statements
June 30, 2019 and 2018

Unconditional gifts expected to be collected within one year are reported at their net realizable value. Unconditional gifts expected to be collected in future years are initially reported at fair value determined using the discounted present value of estimated future cash flows technique. The resulting discount is amortized using the level-yield method and is reported as contribution revenue.

In-Kind Contributions

In addition to receiving cash contributions, the Organization receives in-kind contributions of professional medical services. It is the policy of the Organization to record the estimated fair value of certain in-kind donations as an expense in its financial statements and similarly increase contribution revenue by a like amount. During the years ended June 30, 2019 and 2018, the Organization received in-kind contributions of approximately \$135,000 and \$131,300, respectively.

Income Taxes

The Health Center and CBR have been recognized as exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of state law. However, the Health Center and CBR are subject to federal income tax on any unrelated business taxable income.

The Health Center and CBR files tax returns in the U.S. federal jurisdiction. With a few exceptions, the Health Center and CBR are no longer subject to U.S. federal examinations by taxing authorities for the years before 2016.

Electronic Health Records Incentive Program

The Electronic Health Records Incentive Program, enacted as part of the *American Recovery and Reinvestment Act of 2009*, provides for one-time incentive payments under both the Medicare and Medicaid programs to eligible organizations that demonstrate meaningful use of certified electronic health records technology (EHR). Payments under the Medicare program are generally made for up to four years based on a statutory formula. Payments under the Medicaid program are generally made for up to six years based upon a statutory formula, as determined by the state, which is approved by the Centers for Medicare and Medicaid Services. Payment under both programs are contingent on the Organization continuing to meet escalating meaningful use criteria and any other specific requirements that are applicable for the reporting period. The final amount for any payment year is determined based upon an audit by the fiscal intermediary. Events could occur that would cause the final amounts to differ materially from the initial payments under the program.

The Organization recognizes revenue ratably over the reporting period starting at the point when management is reasonably assured it will meet all of the meaningful use objectives and any other specific grant requirements applicable for the reporting period.

Chase Brexton Health Services, Inc.
Notes to Consolidated Financial Statements
June 30, 2019 and 2018

The Organization recorded revenues of \$170,000 and \$42,500 for the years ended June 30, 2019 and 2018, respectively, which is included in grant revenue in the consolidated statements of operations.

Excess (Deficiency) of Revenues Over Expenses

The consolidated statements of operations include excess (deficiency) of revenues over expenses. Changes in net assets without donor restrictions which are excluded from excess (deficiency) of revenues over expenses, consistent with industry practice, include contributions and grants of long-lived assets including assets acquired using contributions or grants which by donor or granting agency restriction are to be used for the purpose of acquiring such assets.

Note 2: Grant Revenue

The Organization is the recipient of a Consolidated Health Centers (CHC) grant from the U.S. Department of Health and Human Services. The general purpose of the grant is to provide expanded primary health care service delivery for residents of Baltimore, Maryland, and the surrounding areas. Terms of the grant generally provide for funding of the Organization's operations based on an approved budget. Grant revenue is recognized as qualifying expenditures are incurred over the grant period. During the years ended June 30, 2019 and 2018, the Organization recognized \$4,185,935 and \$4,221,638 in CHC grant revenue, respectively. The Organization's present CHC grant award covers the grant period ending December 31, 2019, and is approved at \$3,707,011.

In addition to the above grant, the Organization receives additional financial support from other federal, state and private sources. Generally, such support requires compliance with terms and conditions specified in grant agreements and must be renewed on an annual basis.

Note 3: Net Patient Service Revenue

The Organization recognizes patient service revenue associated with services provided to patients who have third-party payer coverage on the basis of contractual rates for the services rendered. For uninsured patients that do not qualify for the sliding fee program, the Organization recognizes revenue on the basis of its standard rates for services provided. On the basis of historical experience, a significant portion of the Organization's uninsured patients who do not qualify for the sliding fee program will be unable or unwilling to pay for the services provided. Thus, the Organization records a significant provision for uncollectible accounts related to uninsured patients who do not qualify for the sliding fee program in the period the services are provided. This provision for uncollectible accounts is presented on the consolidated statement of operations as a component of net patient service revenue.

Chase Brexton Health Services, Inc.
Notes to Consolidated Financial Statements
June 30, 2019 and 2018

The Organization is approved as a Federally Qualified Health Center (FQHC) for both Medicare and Medicaid reimbursement purposes. The Organization has agreements with third-party payers that provide for payments to the Organization at amounts different from its established rates. These payment arrangements include:

Medicare. Covered FQHC services rendered to Medicare program beneficiaries are paid on a prospective payment system (PPS). Medicare payment under the FQHC PPS is 80 percent of the lesser of the Health Center's actual charge or the applicable PPS rate (patient coinsurance is 20 percent of the lesser of the Health Center's actual charge or the applicable PPS rate). Accordingly, to the extent the Health Center's charge is below the applicable PPS rate, Medicare FQHC reimbursement is limited.

Medicaid. Covered FQHC services rendered to Medicaid program beneficiaries are paid on a prospective reimbursement methodology. The Organization is reimbursed a set encounter rate for all services under the plan. Services not covered under the FQHC benefit are paid based on established fee schedules.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

The Organization has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment to the Organization under these agreements includes prospectively determined rates and discounts from established charges.

Patient service revenue, net of contractual allowances and discounts (but before the provision for uncollectible accounts), recognized in the years ended June 30, 2019 and 2018, was approximately:

	2019	2018
Medicaid	\$ 39,507,625	\$ 35,583,815
Medicare	7,386,247	6,975,128
Self-pay	2,205,814	2,350,080
Other third-party payers	<u>40,728,738</u>	<u>33,513,514</u>
Total	<u><u>\$ 89,828,424</u></u>	<u><u>\$ 78,422,537</u></u>

Chase Brexton Health Services, Inc.
Notes to Consolidated Financial Statements
June 30, 2019 and 2018

Note 4: Concentrations of Credit Risk

The Organization grants credit without collateral to its patients, most of whom are area residents and are insured under third-party payer agreements. The mix of receivables from patients and third-party payers for patient services and pharmaceuticals at June 30, 2019 and 2018, was:

	2019	2018
Medicaid	42%	43%
Medicare	5%	6%
Self-pay	3%	1%
Other third-party payers	50%	50%
	<u>100%</u>	<u>100%</u>

Note 5: Investments and Investment Return

Assets Limited as to Use

Assets limited to use, at June 30, 2019 and 2018, include:

	2019	2018
Deferred compensation plan assets		
Money market funds	\$ 12,984	\$ 8,065
Equity income mutual funds	60,227	34,522
Diversified equity mutual funds	62,375	96,001
Small cap equity mutual funds	8,218	4,806
Short-term bond funds	15,003	5,654
	<u>\$ 158,807</u>	<u>\$ 149,048</u>
Externally restricted for external fees		
Cash	<u>\$ 25,565</u>	<u>\$ 37,900</u>

Chase Brexton Health Services, Inc.
Notes to Consolidated Financial Statements
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Long-Term Investments

Long-term investments, at June 30, 2019 and 2018, include:

	2019	2018
	<u> </u>	<u> </u>
Money market funds	\$ 650,530	\$ 592,302
Equity income mutual funds	9,049,414	7,796,287
Diversified equity mutual funds	3,814,572	3,383,875
Small cap equity mutual funds	6,020,326	5,443,501
Short-term bond funds	-	931,902
Certificates of deposit	-	199,988
U.S. treasury securities	2,984,460	-
	<u>2,984,460</u>	<u> </u>
	<u>\$ 22,519,302</u>	<u>\$ 18,347,855</u>

Total investment return, at June 30, 2019 and 2018, is comprised of the following:

	2019	2018
	<u> </u>	<u> </u>
Interest and dividend income	\$ 1,360,006	\$ 808,553
Unrealized gain (loss) on trading securities	<u>(45,499)</u>	<u>902,208</u>
	<u>\$ 1,314,507</u>	<u>\$ 1,710,761</u>

Chase Brexton Health Services, Inc.
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Note 6: Investment in Equity Investees

The Health Center has a 12.375 percent limited partnership interest in Maryland Community Health Systems Limited Liability Partnership (the “Partnership”). The Partnership is composed of eight community health centers, each of which is a not-for-profit, tax-exempt organization. The eight health centers are the limited partners and MCHS, Inc. is the general partner. The Health Center owned 12.5 percent (one share) of MCHS, Inc., a Maryland for-profit corporation. The investments in the Partnership and MCHS, Inc. are included in prepaid expenses and other on the consolidated balance sheet. Financial position and results of operations of the investees for 2019 and 2018 are summarized below:

	2019		2018	
	MCHS, Inc.	Partnership	MCHS, Inc.	Partnership
Current assets	\$ -	\$ 178,288	\$ -	\$ 407,012
Total assets	22,433	3,854,111	22,433	4,503,871
Current liabilities	-	868,847	-	878,734
Total liabilities	-	3,332,689	-	4,125,797
Equity	\$ 22,433	\$ 521,422	\$ 22,433	\$ 378,074
Revenues	\$ -	\$ 17,820,360	\$ -	\$ 14,327,535
Net income (loss)	\$ -	\$ 12,845,401	\$ (4,200)	\$ 13,619,892

The Partnership owns a 50 percent interest in Priority Partners, a Maryland corporation, which is a joint venture with Johns Hopkins Healthcare (JHHC), for the purpose of operating an authorized managed care organization under the terms of HealthChoice. JHHC has assumed sole responsibility for the expenses of Priority Partners, including any capital calls to fund any operating deficiencies. By agreement, Priority Partners pays the Partnership 1 percent of the revenue received from the state of Maryland. Partnership income earned by the Health Center from the limited partnership was \$2,557,695 and \$2,434,114 for the years ended June 30, 2019 and 2018, respectively.

Peoples Community Health Center (PCHC) is one of the eight health centers which owned 12.5 percent (one share) of MCHS, Inc. in 2017. PCHC filed for Chapter 11 bankruptcy protection January 2015. PCHC no longer has any patients assigned to them by Priority Partners but continued to receive 1 percent of the premium that is shared equally between all owners. In March 2018, the other owners in MCHS, Inc. agreed to buy PCHC out of their ownership position as their incentives no longer align with the remaining owners. The proposal agreed to by PCHC’s legislating trustee was \$4.2 million for PCHC’s interest in MCHS, Inc. The Partnership took out a loan in March 2018 to fund the acquisition, which it will repay strictly from PCHC’s share of the exclusivity fee.

Chase Brexton Health Services, Inc.
Notes to Consolidated Financial Statements
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During 2017, Charles at Chase Condominium Council, Inc. (Condominium) was formed in which CBR has a 50 percent interest. The Condominium is comprised of two units (Unit #1111 and Unit #1125) and is governed by a four-member Council. Each Unit is entitled to two members and two voting rights on the Council. As such, CBR's interest does not give them significant influence over the Condominium's operations. There was no initial investment made into the Condominium by either party and the owners are billed proportionate share of the monthly expenses in accordance with the Declaration of Condominium for Charles at Chase Condominium agreement. Additional units will include common and limited use common elements which will be owned jointly by both the two units. The Declaration of Condominium for Charles at Chase Condominium agreement provides unit percentages allocated in accordance with proportional square footages of each condominium unit, with special allocations for the specified items such as the shared systems and the garage. Financial position and results of operations of the Condominium are summarized below:

	2019	2018
Current assets	\$ 276,223	\$ 75,212
Total assets	276,223	75,212
Current liabilities	276,223	75,212
Total liabilities	276,223	75,212
Equity	\$ -	\$ -
Revenues	\$ 760,652	\$ 667,490
Net income	\$ -	\$ -

Note 7: Notes Receivable

In conjunction with the New Market Tax Credit transaction (see *Note 16*), the Health Center issued an unsecured note receivable. The balance of the note receivable at June 30, 2019 and 2018, was \$6,241,100. The note matures on June 10, 2039, and interest accrues monthly at a rate of 0.25 percent. Interest-only payments are due monthly for seven years. Beginning on March 10, 2020, principal and interest payments of \$88,169 are receivable monthly.

Chase Brexton Health Services, Inc.
Notes to Consolidated Financial Statements
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Note 8: Long-Term Debt

	2019	2018
Note payable (A)	\$ 6,241,100	\$ 6,241,100
Note payable (B)	2,398,900	2,398,900
Capital lease obligations (C)	2,735,284	2,703,051
	11,375,284	11,343,051
Less unamortized debt issuance costs	32,313	96,993
Less current maturities	1,818,239	1,276,314
	\$ 9,524,732	\$ 9,969,744

- (A) This note payable is due to NFF New Markets Fund XIX, LLC on December 1, 2042. Interest-only payments of \$24,559 are to be made quarterly until December 1, 2019, at a rate of 1.574 percent, thereafter, quarterly payments of principal and interest in the amount of \$80,989 are to be made at a rate of 1.574 percent; secured by certain property and equipment. Unamortized debt issuance costs were \$23,341 and \$70,062 at June 30, 2019 and June 30, 2018, respectively.
- (B) This note payable is due to NFF New Markets Fund XIX, LLC on December 1, 2042. Interest-only payments of \$9,440 are to be made quarterly until December 1, 2019, at a rate of 1.574 percent, thereafter, quarterly payments of principal and interest in the amount of \$31,130 are to be made at a rate of 1.574 percent; secured by certain property and equipment. Unamortized debt issuance costs were \$8,972 and \$26,931 at June 30, 2019 and June 30, 2018, respectively.
- (C) At varying rates of imputed interest from 2.5 percent to 4.38 percent, due through June 2022; collateralized by property and equipment. Property and equipment included the following equipment under capital leases:

	2019	2018
Leasehold improvements	\$ 1,636,867	\$ 1,636,867
Equipment	7,609,199	6,076,351
	9,246,066	7,713,218
Less accumulated depreciation	4,548,866	3,447,240
	\$ 4,697,200	\$ 4,265,978

Chase Brexton Health Services, Inc.
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Aggregate annual maturities of long-term debt and payments on capital lease obligations at June 30, 2019, are:

	Long-Term Debt (Excluding Capital Lease Obligations)	Capital Lease Obligations
2020	\$ 156,547	\$ 1,739,155
2021	316,808	859,912
2022	321,824	248,537
2023	326,919	-
2024	332,095	-
Thereafter	<u>7,185,807</u>	<u>-</u>
	<u><u>\$ 8,640,000</u></u>	<u>2,847,604</u>
Less amount representing interest		<u>112,320</u>
Present value of future minimum lease payments		2,735,284
Less current maturities		<u>1,661,692</u>
Noncurrent portion		<u><u>\$ 1,073,592</u></u>

Chase Brexton Health Services, Inc.
Notes to Consolidated Financial Statements
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Note 9: Medical Malpractice Claims

The U.S. Department of Health and Human Services has deemed the Organization and its participating physicians and other licensed or certified health care practitioners, covered under the Federal Tort Claims Act (FTCA) for damage for personal injury, including death, resulting from the performance of medical, surgical, dental and related functions. FTCA coverage is comparable to an occurrence policy without a monetary cap.

Claim liabilities are to be determined without consideration of insurance recoveries. Expected recoveries are presented separately. Based upon the Organization's claim experience, no accrual has been made for the Organization's medical malpractice costs for the years ended June 30, 2019 and 2018. However, because of the risk in providing health care services, it is possible that an event has occurred which will be the basis of a future material claim.

Note 10: Net Assets With Donor Restrictions

Net assets with donor restrictions are available for the following purpose or periods:

	<u>2019</u>	<u>2018</u>
Health care services	<u>\$ 529,939</u>	<u>\$ 474,674</u>

During 2019 and 2018, net assets were released from donor restrictions by incurring expenses, satisfying the restricted purposes in the amounts of \$810,298 and \$363,126, respectively.

Chase Brexton Health Services, Inc.
Notes to Consolidated Financial Statements
June 30, 2019 and 2018

Note 11: Liquidity and Availability

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

	<u>2019</u>	<u>2018</u>
Financial assets at year end		
Cash and cash equivalents	\$ 7,040,367	\$ 7,933,586
Patient accounts receivable, net	5,203,204	5,043,741
Grants and other receivables	3,175,032	3,332,714
Contributions receivable	25,000	25,000
Assets limited as to use	184,372	186,948
Notes receivable	6,241,100	6,241,100
Investments	<u>22,519,302</u>	<u>18,347,855</u>
Total financial assets	<u>44,388,377</u>	<u>41,110,944</u>
Less amounts not available to be used within one year		
Contributions receivable	25,000	25,000
Assets limited as to use	184,372	186,948
Notes receivable	<u>6,095,787</u>	<u>6,241,100</u>
Financial assets not available to be used within one year	<u>6,305,159</u>	<u>6,453,048</u>
Financial assets available to meet general expenditures within one year	<u>\$ 38,083,218</u>	<u>\$ 34,657,896</u>

As part of the Organization'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.

Chase Brexton Health Services, Inc.
Notes to Consolidated Financial Statements
June 30, 2019 and 2018

Note 12: Functional Expenses

The Organization provides health care services to residents within its geographic area. Certain costs attributable to more than one function have been allocated among the health care services, general and administrative and fundraising functional expense classifications based on the salary allocation. The following schedule presents the natural classification of expenses by function as follows:

	2019					Total Health Care Services	Support Services			Total
	Health Care Services						General and Administrative	Fundraising	Total Support Services	
	Medical	Dental	Behavioral Health	OB-GYN	Pharmacy					
Salaries and wages	\$ 15,822,248	\$ 1,787,547	\$ 2,505,314	\$ 1,723,986	\$ 3,510,082	\$ 25,349,177	\$ 6,009,528	\$ 380,295	\$ 6,389,823	\$ 31,739,000
Employee benefits	2,920,193	307,242	550,309	130,594	636,273	4,544,611	1,158,733	60,339	1,219,072	5,763,683
Purchased services and professional fees	227,095	4,037	100	135,188	141,388	507,808	735,063	-	735,063	1,242,871
Supplies and other	6,312,185	693,598	912,335	484,839	566,156	8,969,113	2,294,019	174,118	2,468,137	11,437,250
Pharmacy expenses	-	-	-	-	44,814,139	44,814,139	-	-	-	44,814,139
Rent	628,821	113,726	403,035	138,401	119,178	1,403,161	140,232	-	140,232	1,543,393
Depreciation	1,765,313	319,266	1,131,448	388,521	334,571	3,939,119	393,678	-	393,678	4,332,797
Interest expense	-	-	-	-	-	-	300,938	-	300,938	300,938
Loss on disposal of property and equipment	-	-	-	-	-	-	5,091	-	5,091	5,091
Total expenses	<u>\$ 27,675,855</u>	<u>\$ 3,225,416</u>	<u>\$ 5,502,541</u>	<u>\$ 3,001,529</u>	<u>\$ 50,121,787</u>	<u>\$ 89,527,128</u>	<u>\$ 11,037,282</u>	<u>\$ 614,752</u>	<u>\$ 11,652,034</u>	<u>\$ 101,179,162</u>

For 2018, the Organization had \$73,079,005 of health care services, \$18,873,120 in general and administrative and \$489,059 in fundraising expenses.

Note 13: Operating Leases

Noncancellable operating leases for primary care outpatient offices expire in various years through 2026. These leases generally contain renewal options for periods ranging from 5 to 10 years and require the Organization to pay the majority of all executory costs (property taxes, maintenance and insurance).

Chase Brexton Health Services, Inc.
Notes to Consolidated Financial Statements
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Future minimum lease payments at June 30, 2019, were:

2020	\$ 899,935
2021	775,027
2022	797,518
2023	815,108
2024	820,719
Thereafter	<u>746,994</u>
Future minimum lease payments	<u><u>\$ 4,855,301</u></u>

Note 14: Retirement Plan

The Organization has a 403(b) defined contribution plan covering substantially all employees who have two years of service and make elective deferral contributions greater than 3 percent of their salary. The Organization matches each participant’s deferral up to 5 percent of annualized compensation. The Organization also has a 457(b) retirement plan and a 457(f) retirement plan both of which cover select highly compensated employees. Retirement plan expenses for the years ended June 30, 2019 and 2018, were \$589,612 and \$482,730, respectively.

Note 15: Disclosures About Fair Value of Assets and Liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets or liabilities
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3** Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities

Chase Brexton Health Services, Inc.
Notes to Consolidated Financial Statements
June 30, 2019 and 2018

Recurring Measurements

The following table presents the fair value measurements of assets recognized in the accompanying consolidated balance sheets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at June 30, 2019 and 2018:

	Fair Value Measurements Using			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
June 30, 2019				
Cash equivalents – money market funds	\$ 663,514	\$ 663,514	\$ -	\$ -
Investments – small cap equity mutual funds	6,028,544	6,028,544	-	-
Investments – equity income mutual funds	9,109,641	9,109,641	-	-
Investments – diversified mutual funds	3,876,947	3,876,947	-	-
Investments – short term bonds	15,003	15,003	-	-
Investments – U.S. Treasury securities	2,984,460	2,984,460	-	-
June 30, 2018				
Cash equivalents – money market funds	\$ 600,367	\$ 600,367	\$ -	\$ -
Investments – small cap equity mutual funds	5,448,307	5,448,307	-	-
Investments – equity income mutual funds	7,830,809	7,830,809	-	-
Investments – diversified mutual funds	3,479,876	3,479,876	-	-
Investments – short term bonds	937,556	937,556	-	-

Following is a description of the valuation methodologies and inputs used for assets measured at fair value on a recurring basis and recognized in the accompanying consolidated balance sheets, as well as the general classification of such assets pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the year ended June 30, 2019.

Cash Equivalents and Investments

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy.

Chase Brexton Health Services, Inc.
Notes to Consolidated Financial Statements
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Note 16: New Market Tax Credits

On December 10, 2012, the Health Center and CBR entered into a transaction which generated “New Market Tax Credits” (NMTCs) under Section 45D of Internal Revenue Code of 1986, as amended (Section 45D). The transaction was initiated by JPMorgan Chase Bank (Investor Member) who contributed \$9,000,000 to an investment fund established for the transaction. The investment fund also secured a loan from the Health Center of \$6,241,100 (see *Note 7*).

The investment fund used the loan proceeds to return equity to the Investor Member in the amount of \$6,227,377. The remaining contributions and loan proceeds were used to pay certain transaction fees and the remaining funds were contributed to a third-party Qualified Community Development Entity (CDE) as the Qualified Equity Investment (QEI) under Section 45D. The CDE then funded loans totaling \$8,640,000 to CBR, the Qualified Active Low-Income Business (QALICB) under Section 45D. The transaction was structured as 30-year debt financing with a 7-year NMTC compliance period, at the end of which time the Health Center will have the option to acquire all membership rights of the investment fund and forgive the related debt.

CBR used the \$8,640,000 loan proceeds for substantial rehabilitation of two buildings of a 4-building complex (Property) of approximately 80,000 sq. ft. of clinical and administrative space for use by the Health Center. The Property is located at 1111 North Charles Street in Baltimore, Maryland. The debt is guaranteed and secured by the Property. The Property qualifies as low-income property under Section 45D. As such, the financing arrangements between CBR and the lenders qualify as a “qualified low-income community investment” (QLICI) and generate NMTCs.

During 2016, the Health Center also contributed land, building and cash totaling an additional \$866,076 directly to CBR, which was eliminated in the consolidated financial statements. The Health Center and CBR entered into a rental agreement on December 10, 2012, for which, upon completion of the building, the Health Center rents the building from CBR for \$38,750 per quarter through February 29, 2020. The rent from March 1, 2020 through December 31, 2042, will be \$122,000 per quarter. Rental expense and rental income in the amount of \$155,000 was eliminated for purposes of the consolidated financial statements during 2019 and 2018. All future rental expense and rental income between the Health Center and CBR will be eliminated for the purposes of the consolidated financial statements.

Note 17: Significant Estimates and Concentrations

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerability due to certain concentrations. Those matters include the following:

Chase Brexton Health Services, Inc.
Notes to Consolidated Financial Statements
June 30, 2019 and 2018

Grant Revenues

A concentration of revenues related to grant awards and other support is described in *Note 2*.

Allowance for Net Patient Service Revenue Adjustments

Estimates of allowances for adjustments included in net patient service revenue are described in *Notes 1* and *3*.

Medical Malpractice Claims

Estimates related to the accrual for medical malpractice claims are described in *Note 9*.

Collective Bargaining Agreements

Approximately 50 percent and 30 percent of the Organization's employees were covered by collective bargaining agreements at June 30, 2019 and June 30, 2018, respectively.

Self-Insurance

Under the Organization's insurance programs, coverage is obtained for catastrophic exposures as well as those risks required to be insured by law or contract. The Organization retains a significant portion of certain expected losses related primarily to employee health, dental and vision coverage.

Provision for losses expected under these programs are recorded based upon the Organization's estimates of the aggregated liability for claims incurred and totaled \$251,305 and \$0 at June 30, 2019 and 2018, respectively. The amount of actual losses incurred could differ materially from these estimates. The Organization maintains stop-loss commercial coverage.

Litigation

In the normal course of business, the Organization is, from time to time, subject to allegations that may or do result in litigation. Some of these allegations are in areas not covered by commercial insurance; for example, allegations regarding employment practices, performance of contracts or medical malpractice claims not covered under FTCA (*Note 9*). The Organization evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of counsel, management records an estimate of the amount of ultimate expected loss, if any, for these matters. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

Chase Brexton Health Services, Inc.
Notes to Consolidated Financial Statements
June 30, 2019 and 2018

Investments

The Organization invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the accompanying consolidated balance sheets.

340B Drug Pricing Program

The Organization participates in the 340B Drug Discount Pricing Program (340B Program) enabling the Organization to receive discounted prices from the drug manufacturers on outpatient pharmaceutical purchases. This program is overseen by the Health Resources and Services Administration (HRSA) Office of Pharmacy Affairs (OPA). HRSA is currently conducting routine audits of these programs at health care organizations and increasing its compliance monitoring processes. Laws and regulations governing the 340B Program are complex and subject to interpretation and change. As a result, it is reasonably possible that material changes to the financial statement amounts related to the 340B Program could occur in the near term.

Note 18: Change in Accounting Principle

In 2019, the Organization, adopted ASU 2016-14, *Not-For-Profit Entities (Topic 958): Presentation of Financial Statements of Not-For-Profit Entities*. A summary of the changes is as follows:

Consolidated Balance Sheet

- The consolidated balance sheet distinguishes between two new classes of net assets—those with donor-imposed restrictions and those without. This is a change from the previously required two classes of net assets—unrestricted and temporarily restricted.

Consolidated Statement of Operations

- Investment income is shown net of external and direct internal investment expenses. Disclosure of the expenses netted against investment income is no longer required.

Chase Brexton Health Services, Inc.
Notes to Consolidated Financial Statements
June 30, 2019 and 2018

Notes to the Consolidated Financial Statements

- Enhanced quantitative and qualitative disclosures provide additional information useful in assessing liquidity and cash flows available to meet operating expenses for one-year from the date of the balance sheet.
- Amounts and purposes of Governing Board designations and appropriations as of the end of the period are disclosed.

This change had no impact on previously reported total change in net assets.

Note 19: Subsequent Event

In conjunction with the New Market Tax Credit transaction that was entered into in 2012 (see *Note 16*), CBR issued two promissory notes payable to NFF New Market Fund in the amount of \$6,241,100 and \$2,398,900 (see *Note 8*). In addition, the Health Center loaned \$6,241,100 to the NFF New Market Fund (see *Note 7*).

In December 2019, the New Market Tax Credit compliance period ended and the Health Center exercised their put option for \$1,000 and 100 percent of the membership interest in the NFF New Market Fund was transferred to the Health Center. The Organization's forgiveness of the promissory notes payable and note receivable will result in a net gain of approximately \$2,400,000 in fiscal year 2020.

Subsequent events have been evaluated through December 31, 2019, which is the date the financial statements were available to be issued.

Note 20: Future Change in Accounting Principle

Revenue Recognition

The Financial Accounting Standards Board amended its standards related to revenue recognition. This amendment replaces all existing revenue recognition guidance and provides a single, comprehensive revenue recognition model for all contracts with customers. The guidance provides a five-step analysis of transactions to determine when and how revenue is recognized. Other major provisions include capitalization of certain contract costs, consideration of the time value of money in the transaction price and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. The amendment also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in those judgments and assets recognized from costs incurred to fulfill a contract. The standard allows either full or modified retrospective adoption effective for annual periods beginning July 1, 2019, and any interim periods therein. The Organization is in the process of evaluating the impact the amendment will have on the financial statements.

Chase Brexton Health Services, Inc.
Notes to Consolidated Financial Statements
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Accounting for Leases

The Financial Accounting Standards Board amended its standard related to the accounting for leases. Under the new standard, lessees will now be required to recognize substantially all leases on the balance sheet as both a right-of-use asset and a liability. The standard has two types of leases for income statement recognition purposes: operating leases and finance leases. Operating leases will result in the recognition of a single lease expense on a straight-line basis over the lease term similar to the treatment for operating leases under existing standards. Finance leases will result in an accelerated expense similar to the accounting for capital leases under existing standards. The determination of lease classification as operating or finance will be done in a manner similar to existing standards. The new standard also contains amended guidance regarding the identification of embedded leases in service contracts and the identification of lease and nonlease components in an arrangement. The new standard is effective for annual periods beginning after December 15, 2019 (2018 for not for profits that are conduit debt obligors), and any interim periods within annual reporting periods that begin after December 15, 2020 (2018 for not for profits that are conduit debt obligors). The Organization is evaluating the impact the standard will have on the financial statements; however, the standard is expected to have a material impact on the financial statements due to the recognition of additional assets and liabilities for operating leases.

Other Information

Chase Brexton Health Services, Inc.
Consolidating Schedule – Balance Sheet Information
June 30, 2019

	Chase Brexton Health Services, Inc.	Chase Brexton Realty, Inc.	Eliminations	Total
Assets				
Current Assets				
Cash and cash equivalents	\$ 6,616,347	\$ 424,020	\$ -	\$ 7,040,367
Patient accounts receivable, net of allowance – \$500,000	5,203,204	-	-	5,203,204
Grants and other receivables	3,636,207	-	(461,175)	3,175,032
Notes receivable – current	145,313	-	-	145,313
Supplies	1,901,683	-	-	1,901,683
Prepaid expenses and other	849,017	-	-	849,017
Total current assets	<u>18,351,771</u>	<u>424,020</u>	<u>(461,175)</u>	<u>18,314,616</u>
Assets Limited As To Use				
Deferred compensation plan assets	158,807	-	-	158,807
Externally restricted for external fees	-	25,565	-	25,565
	<u>158,807</u>	<u>25,565</u>	<u>-</u>	<u>184,372</u>
Investments				
Long-term investments	<u>22,519,302</u>	<u>-</u>	<u>-</u>	<u>22,519,302</u>
Notes Receivable				
	<u>6,095,787</u>	<u>-</u>	<u>-</u>	<u>6,095,787</u>
Property and Equipment, At Cost				
Land	-	964,689	-	964,689
Buildings and leasehold improvements	5,754,670	39,608,032	-	45,362,702
Equipment	9,892,772	-	-	9,892,772
Furniture and fixtures	1,365,655	-	-	1,365,655
Construction in progress	134,369	9,975	-	144,344
	<u>17,147,466</u>	<u>40,582,696</u>	<u>-</u>	<u>57,730,162</u>
Less accumulated depreciation	10,796,198	14,736,472	-	25,532,670
	<u>6,351,268</u>	<u>25,846,224</u>	<u>-</u>	<u>32,197,492</u>
Contributions Receivable				
	<u>25,000</u>	<u>-</u>	<u>-</u>	<u>25,000</u>
Total assets	<u>\$ 53,501,935</u>	<u>\$ 26,295,809</u>	<u>\$ (461,175)</u>	<u>\$ 79,336,569</u>

	Chase Brexton Health Services, Inc.	Chase Brexton Realty, Inc.	Eliminations	Total
Liabilities and Net Assets				
Current Liabilities				
Current maturities of long-term debt	\$ 1,661,692	\$ 156,547	\$ -	\$ 1,818,239
Accounts payable	3,161,844	-	-	3,161,844
Accrued expenses	2,513,488	110,300	-	2,623,788
Due to related party	-	461,175	(461,175)	-
Estimated self-insurance costs – current	251,305	-	-	251,305
Total current liabilities	7,588,329	728,022	(461,175)	7,855,176
Accrued Rent Payable	902,276	-	-	902,276
Long-Term Debt	1,073,592	8,451,140	-	9,524,732
Deferred Compensation	158,807	-	-	158,807
Total liabilities	9,723,004	9,179,162	(461,175)	18,440,991
Net Assets				
Without donor restrictions	43,248,992	17,116,647	-	60,365,639
With donor restrictions	529,939	-	-	529,939
Total net assets	43,778,931	17,116,647	-	60,895,578
Total liabilities and net assets	\$ 53,501,935	\$ 26,295,809	\$ (461,175)	\$ 79,336,569

Chase Brexton Health Services, Inc.
Consolidating Schedule – Statement of Operations Information
Year Ended June 30, 2019

	Chase Brexton Health Services, Inc.	Chase Brexton Realty, Inc.	Eliminations	Total
Revenues, Gains and Other Support Without Donor Restrictions				
Patient service revenue (net of contractual discounts and allowances)	\$ 89,828,424	\$ -	\$ -	\$ 89,828,424
Provision for uncollectible accounts	1,965,246	-	-	1,965,246
Net patient service revenue less provision for uncollectible accounts	87,863,178	-	-	87,863,178
Grant revenue	8,999,653	-	-	8,999,653
Contribution revenue	278,616	-	-	278,616
Other	103	155,000	(155,000)	103
Net assets released from restrictions used for operations	810,298	-	-	810,298
Total revenues, gains and other support without donor restrictions	<u>97,951,848</u>	<u>155,000</u>	<u>(155,000)</u>	<u>97,951,848</u>
Expenses and Losses				
Salaries and wages	31,739,000	-	-	31,739,000
Employee benefits	5,763,683	-	-	5,763,683
Purchased services and professional fees	1,242,871	-	-	1,242,871
Supplies and other	11,412,850	24,400	-	11,437,250
Pharmacy expenses	44,814,139	-	-	44,814,139
Rent	1,698,393	-	(155,000)	1,543,393
Depreciation	1,681,728	2,651,069	-	4,332,797
Interest expense	100,264	200,674	-	300,938
Loss on disposal of property and equipment	5,091	-	-	5,091
Total expenses and losses	<u>98,458,019</u>	<u>2,876,143</u>	<u>(155,000)</u>	<u>101,179,162</u>
Operating Loss	<u>(506,171)</u>	<u>(2,721,143)</u>	<u>-</u>	<u>(3,227,314)</u>
Other Income				
Investment return, net	1,314,342	165	-	1,314,507
Gain on investment in equity investee	2,557,695	-	-	2,557,695
Total other income	<u>3,872,037</u>	<u>165</u>	<u>-</u>	<u>3,872,202</u>
Excess (Deficiency) of Revenues Over Expenses and Increase (Decrease) in Net Assets Without Donor Restrictions	<u>\$ 3,365,866</u>	<u>\$ (2,720,978)</u>	<u>\$ -</u>	<u>\$ 644,888</u>

Supplementary Information

Chase Brexton Health Services, Inc.
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 Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
U.S. Department of Health and Human Services/ Health Center Program (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, and Public Housing Primary Care)/Health Center Program Cluster	93.224	N/A	\$ -	\$ 777,282
U.S. Department of Health and Human Services/Grants for New and Expanded Services under the Health Center Program/ Health Center Program Cluster	93.527	N/A	-	3,408,653
Total Health Center Program Cluster			-	4,185,935
U.S. Department of Health and Human Services/City of Baltimore Health Department/HIV Care Formula Grants	93.917	38370	-	90,267
U.S. Department of Health and Human Services/State of Maryland Department of Health and Mental Hygiene/HIV Care Formula Grant	93.917	OCPMP 16-14441	-	265,703
Total HIV Care Formula Grants			-	355,970
U.S. Department of Health and Human Services/Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918	N/A	-	811,015
U.S. Department of Health and Human Services/City of Baltimore Health Department/Associated Black Charities, Inc./HIV Emergency Relief Project Grants	93.914	19-2434	-	1,221,357
Total forward			-	6,574,277

Chase Brexton Health Services, Inc.
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 Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
Total forward			\$ -	\$ 6,574,277
U.S. Department of Health and Human Services/City of Baltimore Health Department/HIV Prevention Activities Health Department Based	93.940	15-1506 15-1509 37858	- - -	54,617 183,417 84,295
Total HIV Prevention Activities Health Department Based			-	322,329
			\$ -	\$ 6,896,606

Chase Brexton Health Services, Inc.
Notes to the Schedule of Expenditures of Federal Awards
Year Ended June 30, 2019

Notes to Schedule

1. The accompanying schedule of expenditures of federal awards (the “Schedule”) includes the federal award activity of Chase Brexton Health Services, Inc. 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 Chase Brexton Health Services, Inc., it is not intended to and does not present the financial position, results of operations, changes in net assets or cash flows of Chase Brexton Health Services, Inc.
2. Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Chase Brexton Health Services, Inc. has elected not to use the 10 percent de minimis indirect cost rate allowed under Uniform Guidance.
3. Chase Brexton Health Services, Inc. did not have any federal loan programs during the year ended June 30, 2019.

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

Independent Auditor's Report

Board of Directors
Chase Brexton Health Services, Inc.
Baltimore, Maryland

We have audited, 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, the consolidated financial statements of Chase Brexton Health Services, Inc. (the "Organization"), which comprise the consolidated balance sheet as of June 30, 2019, and the related consolidated statements of operations, changes in net assets and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated December 31, 2019, which contained an "Emphasis of Matter" paragraph regarding a change in accounting principle.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Organization's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization'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.

Board of Directors
Chase Brexton Health Services, Inc.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed 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 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 Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BKD, LLP

Springfield, Missouri
December 31, 2019

Report on Compliance for the Major Federal Program and Report on Internal Control Over Compliance

Independent Auditor's Report

Board of Directors
Chase Brexton Health Services, Inc.
Baltimore, Maryland

Report on Compliance for the Major Federal Program

We have audited Chase Brexton Health Services, Inc.'s (the "Organization") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on Chase Brexton Health Services, Inc.'s major federal program for the year ended June 30, 2019. The Organization's major federal program is 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 Chase Brexton Health Services, Inc.'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 Organization'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 Organization's compliance.

Board of Directors
Chase Brexton Health Services, Inc.

Opinion on the Major Federal Program

In our opinion, Chase Brexton Health Services, Inc. complied, in all material respects, with the 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 Chase Brexton Health Services, Inc. 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 Organization'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 the 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 Organization'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 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.

BKD, LLP

Springfield, Missouri
December 31, 2019

Chase Brexton Health Services, Inc.
Schedule of Findings and Questioned Costs
Year Ended June 30, 2019

Summary of Auditor's Results

Financial Statements

1. The type of report the auditor issued on whether the financial statements audited were prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) was:
- Unmodified Qualified Adverse Disclaimer
2. The independent auditor's report on internal control over financial reporting disclosed:
- Significant deficiency(ies)? Yes None reported
- Material weakness(es)? Yes No
3. Noncompliance considered material to the financial statements was disclosed by the audit? Yes No

Federal Awards

4. The independent auditor's report on internal control over compliance for major federal awards programs disclosed:
- Significant deficiency(ies)? Yes None reported
- Material weakness(es)? Yes No
5. The opinion expressed in the independent auditor's report on compliance for major federal awards was:
- Unmodified Qualified Adverse Disclaimer
6. The audit disclosed findings required to be reported by 2 CFR 200.516(a)? Yes No

Chase Brexton Health Services, Inc.
Schedule of Findings and Questioned Costs
Year Ended June 30, 2019

7. The Organization's major program was:

Cluster/Program	CFDA Number
Health Center Program Cluster	93.224 and 93.527

8. The threshold used to distinguish between Type A and Type B programs was \$750,000.

9. The Organization qualified as a low-risk auditee? Yes No

Chase Brexton Health Services, Inc.
Schedule of Findings and Questioned Costs
Year Ended June 30, 2019

Findings Required to be Reported by *Government Auditing Standards*

Reference Number	Finding
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No matters are reportable.

Findings Required to be Reported by the Uniform Guidance

Reference Number	Finding
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No matters are reportable.

Chase Brexton Health Services, Inc.
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2019

Reference Number	Finding	Status
	No matters are reportable.	