

**Newark Community Health Centers, Inc.**

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

**December 31, 2019 and 2018**

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**Newark Community Health Centers, Inc.**

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## Independent Auditor's Report

To the Board of Directors  
Newark Community Health Centers, Inc.

### Report on the Financial Statements

We have audited the accompanying financial statements of Newark Community Health Centers, Inc. ("NCHC"), which comprise the statements of financial position as of December 31, 2019 and 2018, and the related statements of activities and changes in net assets, functional expenses 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 financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these 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 financial statements are free from material misstatement.

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

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

### *Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of NCHC as of December 31, 2019 and 2018, and the 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.

### *Other Matters*

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal and state awards, as required by Title 2 U.S. Code of Federal Regulations ("CFR") Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"), and State of New Jersey, Department of Treasury, Office of Management and Budget Circular 15-08, *Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid*, is presented for purposes of additional analysis and is not a required part of the financial statements. The schedule of expenditures of federal and state awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the 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 26, 2020, on our consideration of NCHC'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 NCHC'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 NCHC's internal control over financial reporting and compliance.



New York, New York  
June 26, 2020

**Newark Community Health Centers, Inc.**

**Statements of Financial Position  
December 31, 2019 and 2018**

<u>Assets</u>		
	2019	2018
<b>Current assets</b>		
Cash and cash equivalents	\$ 1,279,493	\$ 1,895,056
Patient services receivable	4,621,500	2,350,905
340B pharmacy program receivable	452,043	597,172
Contracts and other grants receivable	46,432	133,118
Prepaid expenses and other current assets	70,670	142,400
Total current assets	6,470,138	5,118,651
<b>Property and equipment, net</b>		
Property and equipment, net	12,776,501	13,669,176
Security deposits	74,712	74,712
Total noncurrent assets	12,851,213	13,743,888
Total assets	\$ 19,321,351	\$ 18,862,539
<u>Liabilities and Net Assets</u>		
<b>Current liabilities</b>		
Accounts payable and accrued expenses	\$ 1,093,642	\$ 688,447
Accrued payroll and employee benefits	836,520	804,556
Current maturities of long-term debt	4,601,613	357,464
Refundable advances	9,842	30,120
Due to third-party payor, current portion	629,736	629,736
Total current liabilities	7,171,353	2,510,323
<b>Noncurrent liabilities</b>		
Due to third-party payor, less current portion	104,954	629,734
Deferred rent	98,088	47,274
Long-term debt, less current maturities	513,418	5,115,030
Total liabilities	7,887,813	8,302,361
<b>Commitments and contingencies</b>		
<b>Net assets</b>		
Without donor restrictions	11,433,538	10,560,178
Total net assets without donor restrictions	11,433,538	10,560,178
Total liabilities and net assets	\$ 19,321,351	\$ 18,862,539

See Notes to Financial Statements.

**Newark Community Health Centers, Inc.**

**Statements of Activities and Changes in Net Assets  
Years Ended December 31, 2019 and 2018**

	2019	2018
Revenue without donor restrictions		
Patient services (net of contractual allowances and discounts)	\$ 20,634,290	\$ 18,398,591
DHHS grants	6,973,281	6,336,771
Contracts and other grants	517,561	496,450
In-kind contributions	2,203,789	1,995,898
340B pharmacy program	3,302,807	4,146,901
Other	286,181	509,277
	<u>33,917,909</u>	<u>31,883,888</u>
 Expenses		
Salaries and related benefits	20,729,210	21,049,353
Other than personnel services	11,005,139	11,022,649
Depreciation and amortization	1,061,949	1,076,815
Interest	248,251	259,662
	<u>33,044,549</u>	<u>33,408,479</u>
 Changes in net assets	 873,360	 (1,524,591)
Net assets, beginning	<u>10,560,178</u>	<u>12,084,769</u>
Net assets, end	<u>\$ 11,433,538</u>	<u>\$ 10,560,178</u>

See Notes to Financial Statements.

**Newark Community Health Centers, Inc.**

**Statement of Functional Expenses  
Year Ended December 31, 2019**

	<u>Program services</u>	<u>General and administrative</u>	<u>Total</u>
Salaries and wages	\$ 13,710,209	\$ 3,215,975	\$ 16,926,184
Fringe benefits	3,080,451	722,575	3,803,026
Insurance	206,828	68,943	275,771
Professional fees	980,552	1,292,619	2,273,171
Medical supplies and lab costs	1,369,065	-	1,369,065
Pharmaceuticals	1,956,555	-	1,956,555
Donated vaccines and supplies	2,127,289	-	2,127,289
Equipment rental and maintenance	531,472	124,666	656,138
Occupancy	957,068	319,022	1,276,090
Postage	26,028	6,105	32,133
Public information	9,612	2,255	11,867
Dues and subscriptions	40,234	9,438	49,672
Travel, conferences and meetings	84,001	19,704	103,705
Staff education	32,415	7,603	40,018
Telephone	421,350	98,835	520,185
Interest	201,085	47,166	248,251
Other	131,317	32,829	164,146
Bad debt	149,334	-	149,334
Depreciation and amortization	796,462	265,487	1,061,949
	<u>\$ 26,811,327</u>	<u>\$ 6,233,222</u>	<u>\$ 33,044,549</u>
Total functional expenses	<u>\$ 26,811,327</u>	<u>\$ 6,233,222</u>	<u>\$ 33,044,549</u>

**Newark Community Health Centers, Inc.**

**Statement of Functional Expenses  
Year Ended December 31, 2018**

	<u>Program services</u>	<u>General and administrative</u>	<u>Total</u>
Salaries and wages	\$ 13,933,585	\$ 3,268,372	\$ 17,201,957
Fringe benefits	3,116,390	731,006	3,847,396
Insurance	207,085	69,028	276,113
Professional fees	946,024	1,002,816	1,948,840
Medical supplies and lab costs	1,180,543	-	1,180,543
Pharmaceuticals	2,667,186	-	2,667,186
Donated vaccines and supplies	1,927,898	-	1,927,898
Equipment rental and maintenance	414,936	97,330	512,266
Occupancy	868,163	289,387	1,157,550
Postage	28,936	6,795	35,731
Public information	10,115	2,373	12,488
Dues and subscriptions	44,808	10,510	55,318
Travel, conferences and meetings	97,653	22,906	120,559
Staff education	58,285	5,059	63,344
Telephone	527,451	134,928	662,379
Interest	210,327	49,335	259,662
Other	127,588	123,680	251,268
Bad debt	151,166	-	151,166
Depreciation and amortization	807,610	269,205	1,076,815
	<u>\$ 27,325,749</u>	<u>\$ 6,082,730</u>	<u>\$ 33,408,479</u>

See Notes to Financial Statements.

**Newark Community Health Centers, Inc.**

**Statements of Cash Flows  
Years Ended December 31, 2019 and 2018**

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities		
Cash received from patient services and pharmacy program	\$ 21,811,631	\$ 22,700,260
Cash received from contracts and other grants	7,557,250	6,842,158
Cash received from other	286,181	509,277
Cash paid to employees	(20,697,246)	(21,034,664)
Cash paid to vendors	(8,798,391)	(7,641,094)
Interest paid	<u>(248,251)</u>	<u>(259,662)</u>
Net cash (used in) provided by operating activities	<u>(88,826)</u>	<u>1,116,275</u>
Cash flows from investing activity - purchase of property and equipment	<u>(169,274)</u>	<u>(163,342)</u>
Cash flows from financing activities		
Payment of long-term debt	<u>(357,463)</u>	<u>(341,994)</u>
Net cash used in financing activities	<u>(357,463)</u>	<u>(341,994)</u>
Net (decrease) increase in cash and cash equivalents	(615,563)	610,939
Cash and cash equivalents, beginning	<u>1,895,056</u>	<u>1,284,117</u>
Cash and cash equivalents, end	<u>\$ 1,279,493</u>	<u>\$ 1,895,056</u>
Reconciliation of changes in net assets to net cash (used in) provided by operating activities		
Changes in net assets	\$ 873,360	\$ (1,524,591)
Adjustments to reconcile changes in net assets to net cash (used in) provided by operating activities		
Depreciation and amortization	1,061,949	1,076,815
Deferred rent	50,814	10,027
Changes in operating assets and liabilities		
Patient services receivable	(2,270,595)	488,251
340B pharmacy program receivable	145,129	(182,318)
Contracts and other grants receivable	86,686	(17,884)
Prepaid expenses and other current assets	71,730	32,020
Accounts payable and accrued expenses	405,195	(67,025)
Accrued payroll and employee benefits	31,964	14,689
Refundable advances	(20,278)	26,821
Due to third-party payor	<u>(524,780)</u>	<u>1,259,470</u>
Net cash (used in) provided by operating activities	<u>\$ (88,826)</u>	<u>\$ 1,116,275</u>

See Notes to Financial Statements.

## Newark Community Health Centers, Inc.

### Notes to Financial Statements December 31, 2019 and 2018

#### Note 1 - Organization and summary of significant accounting policies

##### Organization

Newark Community Health Centers, Inc. ("NCHC") operates healthcare centers in Essex County, New Jersey. NCHC provides a broad range of health services to a largely medically underserved population.

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

##### Basis of presentation

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

##### Adoption of new accounting pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers*, that was amended by ASU 2020-05, *Revenue from Contracts with Customers (Topic 606)*, and *Leases (Topic 842): Effective Dates for Certain Entities*, which provided a one-year deferral of the effective date of ASU 2014-09 for certain entities that have not yet issued financial statements or made financial statements available for issuance as of June 3, 2020. As a result of ASU 2020-05, Topic 606 will be effective for periods beginning after December 15, 2019, and interim reporting periods within annual reporting periods beginning after December 15, 2020. NCHC has evaluated the impact of the new standard on the financial statements and has elected for adoption effective January 1, 2019 using the modified retrospective method of transition. This ASU provides new revenue recognition guidance that superseded existing revenue recognition guidance. The update, as amended, requires the recognition of revenue related to the transfer of goods or services to customers that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services, as well as additional qualitative and quantitative disclosures about revenues. NCHC performed an analysis of revenue streams and transactions under ASU 2014-09. In particular, for patient service revenue net of contractual allowances and discounts and for pharmacy revenue, NCHC performed an analysis into the application of the portfolio approach as a practical expedient to group patient contracts and group pharmacy contracts with similar characteristics, such that revenue for a given portfolio would not be materially different than if it were evaluated on a contract-by-contract basis. Upon adoption, the majority of what was previously classified as provision for bad debts and presented as reduction to patient revenue net of contractual allowances and discounts on the statement of activities and changes in net assets is now treated as a price concession that reduces the transaction price, which is reported as net patient services revenue. The new standard also requires enhanced disclosures related to the disaggregation of revenue and significant judgments made in measurement and recognition. The impact of adopting ASU 2014-09 was not material to total revenue without donor restrictions, increase in net assets without donor restrictions, or total net assets.

NCHC adopted FASB ASU 2018-08, *Not-for-Profit Entities, Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The ASU clarifies and improves guidance for contributions received and contributions made, and provides guidance to organizations on how to account for certain exchange transactions. This change is preferable in that it clarifies whether to account for transactions as contributions or as exchange transactions. In addition, it clarifies whether a contribution is conditional. As a result, it enhances comparability of financial information among not-for-profit entities. The change in accounting principle was adopted

## Newark Community Health Centers, Inc.

### Notes to Financial Statements December 31, 2019 and 2018

on a modified prospective basis in 2019. As a result, there was no cumulative-effect adjustment to opening net assets without donor restrictions or opening net assets with donor restrictions as of January 1, 2019. The adoption of ASU 2018-08 did not affect NCHC's statements of activities and changes in net assets.

NCHC adopted FASB ASU 2016-18, *Statement of Cash Flows: Restricted Cash*. This ASU requires 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 and cash equivalents. The adoption of ASU 2016-18 did not affect NCHC's statements of cash flows.

NCHC adopted FASB ASU 2016-15, *Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments*. This ASU provides guidance on the classification of eight specific cash flow issues. The adoption of ASU 2016-15 did not affect NCHC's statements of cash flows.

#### **Reclassifications**

Certain prior year amounts have been reclassified to conform to the current year presentation.

#### **Use of estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

#### **Classification of net assets**

NCHC reports information regarding its financial position and activities according to the following two categories:

Net assets without donor restrictions are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of NCHC. These net assets may be used at the discretion of NCHC's management and the board of directors.

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

Donor-restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statements of activities and changes in net assets. There are no net assets with donor restrictions at December 31, 2019 and 2018.

#### **Cash and cash equivalents**

All highly liquid investments with maturities of three months or less when purchased are considered to be cash equivalents.

NCHC maintains its cash and cash equivalents in bank deposit accounts which, at times, may exceed federally insured limits. NCHC has not experienced any losses in such accounts. NCHC's bank deposits exceeded Federal Deposit Insurance Corporation limits at various times during the years ended December 31, 2019 and 2018.

## Newark Community Health Centers, Inc.

### Notes to Financial Statements December 31, 2019 and 2018

#### **Grants and contracts receivable**

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

#### **Property and equipment**

Property and equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization are calculated using the straight-line method over the estimated useful lives of the assets ranging from 5 to 40 years. Leasehold improvements are amortized over the shorter of the useful life of the asset or the lease term. Expenditures over \$1,000 are capitalized. Maintenance, repairs and minor renewals are expensed as incurred. When assets are retired or otherwise disposed of, their costs and related accumulated depreciation and amortization are removed from the accounts and any resulting gains or losses are included in changes in net assets.

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

#### **Impairment of long-lived assets**

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

#### **Deferred rent**

NCHC occupies two buildings under leases containing escalation clauses that require normalization of the rental expense over the life of the lease. The resulting deferred rent is reflected in the accompanying statements of financial position.

#### **Pharmacy receivable and revenue**

In April 2014, NCHC began participating in Section 340B of the Public Health Service Act ("PHS Act"), *Limitation on Prices of Drugs Purchased by Covered Entities*. Participation in this program allows NCHC to purchase pharmaceuticals at discounted rates for prescriptions to eligible patients. Pharmacy revenue is generated through its agreements with third parties. Under this program, NCHC uses third parties as its agent for the purpose of operating and managing the pharmacy and providing pharmacy services.

Revenue for performance obligations satisfied at a point in time is generally recognized when the prescriptions are provided to NCHC's pharmacy patients and NCHC does not believe it is required to provide additional goods or services related to that sale. NCHC recognized pharmacy revenue of

## Newark Community Health Centers, Inc.

### Notes to Financial Statements December 31, 2019 and 2018

\$3,302,807 and \$4,146,901 for the years ended December 31, 2019 and 2018, respectively, and pharmacy receivable, net of \$452,043 and \$597,172 as of December 31, 2019 and 2018, respectively.

Because all of its performance obligations relate to pharmacy sales contracts with a duration of less than one year, NCHC has elected to apply the optional exemption provided in FASB Accounting Standards Codification ("ASC") 606-10-50-14a and, therefore, is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. NCHC's performance obligations in relation to pharmacy revenue consist primarily of pharmacy sales that occur as the patient purchases the drugs; thus, there were no unsatisfied or partially unsatisfied performance obligations at the end of the reporting period.

NCHC determines the transaction price based on standard charges for the prescriptions provided, reduced by contractual adjustments provided to third-party payors, discounts provided to uninsured patients in accordance with NCHC's policy, and implicit price concessions provided to uninsured patients. NCHC determines its estimates of contractual adjustments and discounts based on contractual agreements, its discount policies, and historical experience. NCHC determines its estimate of implicit price concessions based on its historical collection experience with this class of patients.

#### **Net patient services revenue and receivables**

Patient care service revenue is reported at the amount that reflects the consideration to which NCHC expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payors (including health insurers and government programs), and others and includes variable consideration for retroactive revenue adjustments due to settlement of audits, reviews, and investigations. Generally, NCHC bills the patients and third-party payors several days after the services are performed or the patient is discharged from the facility. Revenue is recognized as performance obligations are satisfied.

Performance obligations are determined based on the nature of the services provided by NCHC. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected (or actual) charges. NCHC believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to patients receiving services at NCHC's outpatient centers. NCHC measures the performance obligation from the commencement of an outpatient service, to the point when it is no longer required to provide services to that patient, which is generally at the time of completion of the outpatient services.

Because all of its performance obligations relate to contracts with a duration of less than one year, NCHC has elected to apply the optional exemption provided in FASB ASC 606-10-50-14a and, therefore, is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. NCHC's performance obligations consist primarily of outpatient services that occur within one day of a patient's visit; thus, there were no unsatisfied or partially unsatisfied performance obligations at the end of the reporting period.

NCHC determines the transaction price based on standard charges for services provided, reduced by contractual adjustments provided to third-party payors, discounts provided to uninsured patients in accordance with NCHC's policy, and implicit price concessions provided to uninsured patients.

## Newark Community Health Centers, Inc.

### Notes to Financial Statements December 31, 2019 and 2018

NCHC determines its estimates of contractual adjustments and discounts based on contractual agreements, its discount policies, and historical experience. NCHC determines its estimate of implicit price concessions based on its historical collection experience with this class of patients.

Agreements with third-party payors typically provide for payments at amounts less than established charges. A summary of the payment arrangements with major third-party payors follows:

Medicaid - Reimbursements for Medicaid services are generally paid at prospectively determined rates per visit or per covered member.

Medicare - Outpatient services are paid using prospectively determined rates.

Other - Payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations provide for payment using prospectively determined rates per visit, discounts from established charges, and prospectively determined daily rates.

Laws and regulations concerning government programs, including Medicare and Medicaid, are complex and subject to varying interpretation. As a result of investigations by governmental agencies, various health care organizations have received requests for information and notices regarding alleged noncompliance with those laws and regulations, which, in some instances, have resulted in organizations entering into significant settlement agreements. Compliance with such laws and regulations may also be subject to future government review and interpretation, as well as significant regulatory action, including fines, penalties, and potential exclusion from the related programs. There can be no assurance that regulatory authorities will not challenge NCHC's compliance with these laws and regulations, and it is not possible to determine the impact (if any) such claims or penalties would have on NCHC. In addition, the contracts NCHC has with commercial payors also provide for retroactive audit and review of claims.

Settlements with third-party payors for retroactive adjustments due to audits, reviews, or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor, and NCHC's historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known (that is, new information becomes available), or as years are settled or are no longer subject to such audits, reviews, and investigations. Adjustments arising from a change in the transaction price were not significant in 2019. As of December 31, 2019 and 2018, third-party payor settlement of \$1,863,252 and \$0, respectively, is reflected in patient services receivable on the statements of financial position.

Generally, patients who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. NCHC also provides services to uninsured patients, and offers those uninsured patients a discount, either by policy or law, from standard charges. NCHC estimates the transaction price for patients with deductibles and coinsurance and from those who are uninsured based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any contractual adjustments, discounts, and implicit price concessions. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change. For the year ended December 31, 2019, there was no additional revenue recognized

## Newark Community Health Centers, Inc.

### Notes to Financial Statements December 31, 2019 and 2018

due to changes in its estimates of implicit price concessions, discounts, and contractual adjustments for performance obligations satisfied in prior years.

Subsequent changes that are determined to be the result of an adverse change in the patient's ability to pay are recorded as bad debt expense.

Consistent with NCHC's mission, care is provided to patients regardless of their ability to pay. Therefore, NCHC has determined it has provided implicit price concessions to uninsured patients and patients with other uninsured balances (for example, copays and deductibles). The implicit price concessions included in estimating the transaction price represent the difference between amounts billed to patients and the amounts NCHC expects to collect based on its collection history with those patients.

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

NCHC maintains records to identify and monitor the level of sliding fee discount it provides. For uninsured self-pay patients that do not qualify for charity care, NCHC recognizes revenue on the basis of its standard rates for services provided or on the basis of discounted rates, if negotiated or provided by policy. On the basis of historical experience, a significant portion of NCHC's uninsured patients will be unable or unwilling to pay for the services provided. Thus, NCHC records an explicit concession to uninsured patients in the period the services are provided based on historical experience.

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

Based on the cost of patient services, charity care and community benefit for the years ended December 31 amounted to the following:

	<u>2019</u>	<u>2018</u>
Charity Care	\$ 2,250,000	\$ 4,089,000
Community Benefit	\$ 2,780,000	\$ 1,965,000

Such amounts determined to qualify as charity care are not reported as revenue.

NCHC has determined that the nature, amount, timing, and uncertainty of revenue and cash flows are affected by the following factors: payors, geography, service lines, method of reimbursement, and timing of when revenue is recognized.

NCHC has elected the practical expedient allowed under FASB ASC 606-10-32-18 and does not adjust the promised amount of consideration from patients and third-party payors for the effects of a significant financing component due to NCHC's expectation that the period between the time the service is provided to a patient and the time that the patient or a third-party payor pays for that service will be one year or less. However, NCHC does, in certain instances, enter into payment agreements with patients that allow payments in excess of one year. For those cases, the financing component is not deemed to be significant to the contract.

## Newark Community Health Centers, Inc.

### Notes to Financial Statements December 31, 2019 and 2018

NCHC has applied the practical expedient provided by FASB ASC 340-40-25-4 and all incremental customer contract acquisition costs are expensed as they are incurred, as the amortization period of the asset that NCHC otherwise would have recognized is one year or less in duration.

#### **Grants and contracts revenue**

Revenue from grants and contracts with resource providers such as the government and its agencies, other organizations and private foundations are accounted for either as exchange transactions or as contributions. When the resource provider receives commensurate value in return for the resources transferred to NCHC, the revenue from the grant or contract is accounted for as an exchange transaction in accordance with ASU 2014-09. For purposes of determining whether a transfer of asset is a contribution or an exchange, NCHC deems that the resource provider is not synonymous with the general public, i.e., indirect benefit received by the public as a result of the assets transferred is not deemed equivalent to commensurate value received by the resource provider. The execution of a resource provider's mission or the positive sentiment from acting as a donor is not deemed to constitute commensurate value received by a resource provider.

Revenue from grants and contracts that are accounted for as exchange transactions is recognized when performance obligations have been satisfied. Grants and contracts awarded for the acquisition of long-lived assets are reported as nonoperating revenue, in the absence of donor stipulations to the contrary, during the fiscal year in which the assets are acquired. Cash received in excess of revenue recognized is recorded as refundable advances.

Grants and contract transactions where the resource provider does not receive commensurate value are accounted for as a contribution.

#### **Contributions**

Transactions where the resource provider often receive value indirectly by providing a societal benefit, although the societal benefit is not considered to be of commensurate value, are deemed to be contributions. Contributions are classified as either conditional or unconditional. A conditional contribution is a transaction where NCHC has to overcome a barrier or hurdle to be entitled to the resource and the resource provider is released from the obligation to fund or has the right of return of any advanced funding if NCHC fails to overcome the barrier. NCHC recognizes the contribution revenue upon overcoming the barrier or hurdle. Any funding received prior to overcoming the barrier is recognized as refundable advance.

Unconditional contributions are recognized as revenue and receivable when the commitment to contribute is received.

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

At December 31, 2019, NCHC has received grants and contracts from governmental entities, accounted for as either exchange transactions or conditional contributions, in the aggregate amount

## Newark Community Health Centers, Inc.

### Notes to Financial Statements December 31, 2019 and 2018

of \$1,412,335 that have not been recorded in the accompanying financial statements. These grants and contracts require NCHC to complete certain performance obligations during specified periods. If such performance obligations are not provided during the specified periods, the governmental entities are not obligated to expend the funds allotted under the contracts.

#### **Meaningful use incentive**

The American Recovery and Reinvestment Act of 2009 ("ARRA") amended the Social Security Act to establish one-time incentive payments under the Medicare and Medicaid programs for certain professionals that: (1) meaningfully use certified Electronic Health Record ("EHR") technology, (2) use the certified EHR technology for electronic exchange of health information to improve quality of healthcare, and (3) use the certified EHR technology to submit clinical and quality measures. These provisions of ARRA, together with certain of its other provisions, are referred to as the Health Information Technology for Clinical and Economic Health ("HITECH") Act. The criteria for meaningful use incentives will be staged in three steps over the course of six years and be paid out based on a transitional schedule. NCHC's providers have met the criteria and earned \$0 and \$34,000 for the years ended December 31, 2019 and 2018, respectively.

#### **In-kind contributions**

In-kind contributions are recognized in the accompanying financial statements based on their fair value (see Note 11 for details).

#### **Functional expenses**

Expenses are charged to program services or general and administrative based on a combination of specific identification and allocation determined by management on an equitable basis. Natural expenses attributable to more than one functional expense category are allocated using a variety of cost allocation techniques such as time and effort, square footage and full time equivalent.

#### **Performance indicator**

The statement of activities and changes in net assets includes changes in net assets without donor restrictions as the performance indicator.

#### **Interest earned on federal funds**

Interest earned on federal funds is recorded as a payable to PHS in compliance with the Uniform Guidance.

#### **Tax status**

NCHC was incorporated as a not-for-profit corporation under the laws of the State of New Jersey and is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. Therefore, there is no provision for income taxes. NCHC has no unrecognized tax benefits at December 31, 2019 and 2018. NCHC's federal and state information returns prior to fiscal year 2016 are closed and management continually evaluates expiring statutes of limitations, audits, proposed settlements, changes in tax law and new authoritative rulings.

NCHC has filed all required payroll tax returns and payroll taxes due have been paid.

NCHC recognizes interest and penalties associated with tax matters as operating expenses, and includes accrued interest and penalties with accrued expenses in the statements of financial position.

**Newark Community Health Centers, Inc.**

**Notes to Financial Statements  
December 31, 2019 and 2018**

**Subsequent events**

NCHC has evaluated subsequent events through June 26, 2020, which is the date the financial statements were available to be issued.

**Note 2 - Net patient services revenue and patient services receivable**

The composition of patient services revenue by primary payor for the years ended December 31 is as follows:

	<u>2019</u>	<u>2018</u>
Medicaid	\$ 1,918,453	\$ 1,911,260
Medicare	491,809	469,848
Medicaid managed care	11,577,733	11,216,383
Self-pay	982,587	1,516,670
Private insurance	1,891,051	1,512,183
New Jersey uncompensated care	1,909,405	1,772,247
New Jersey Medicaid managed care wraparound settlement	<u>1,863,252</u>	<u>-</u>
<b>Total</b>	<b><u>\$ 20,634,290</u></b>	<b><u>\$ 18,398,591</u></b>

Revenue from patient deductibles and coinsurance are included in the preceding categories based on the primary payor.

Patient services receivable consist of amounts due from government programs, commercial insurance companies, other group insurance programs, and private pay patients. Patient services receivable consist of the following at December 31:

	<u>2019</u>	<u>2018</u>
Medicaid and Medicaid managed care	\$ 2,162,245	\$ 1,833,550
Medicare	65,645	40,515
Self-pay	6,568	46,815
Private insurance	223,932	130,156
New Jersey uncompensated care	299,858	299,869
New Jersey Medicaid managed care wraparound settlement	<u>1,863,252</u>	<u>-</u>
<b>Total</b>	<b><u>\$ 4,621,500</u></b>	<b><u>\$ 2,350,905</u></b>

NCHC's concentration of credit risk relating to patient services receivable primarily relate to uninsured patient accounts and patient accounts for which the primary insurance payor has paid, but patient responsibility amounts remain outstanding. NCHC recognized \$149,334 and \$151,166 of patient receivable impairment or bad debt for the years ended December 31, 2019 and 2018 based on patient-specific impairment events.

**Newark Community Health Centers, Inc.**

**Notes to Financial Statements  
December 31, 2019 and 2018**

**Note 3 - Contracts and other grants receivable**

Contracts and other grants receivable consist of the following at December 31:

	<u>2019</u>	<u>2018</u>
Department of Health and Human Services, Inc.		
Healthy Start Initiative	\$ -	\$ 12,858
City of Newark Department of Health and Community Wellness	46,432	109,976
International Rescue Committee, Inc.	<u>-</u>	<u>10,284</u>
 Total	 <u>\$ 46,432</u>	 <u>\$ 133,118</u>

Grants and contracts receivable credit risk is limited due to the nature of the grants and contracts. NCHC regularly monitors its grants and contracts receivable by investigating delayed payments and differences when payments received do not conform to the amount billed. NCHC estimates doubtful accounts based on historical bad debts, factors related to specific grantor's ability to pay and current economic trends. NCHC writes off grants and contracts receivable against the allowance when a balance is determined to be uncollectible. As of December 31, 2019, and 2018, there was no allowance for doubtful grants and contracts receivable.

**Note 4 - Property and equipment**

Property and equipment consist of the following at December 31:

	<u>2019</u>	<u>2018</u>
Buildings	\$ 16,637,269	\$ 16,620,674
Building and leasehold improvements	2,307,250	2,279,164
Vehicles	56,665	56,665
Furniture and fixtures	717,169	706,139
Equipment	<u>3,206,436</u>	<u>3,092,874</u>
 Subtotal	 22,924,789	 22,755,516
Less accumulated depreciation and amortization	<u>(10,148,288)</u>	<u>(9,086,340)</u>
 Total	 <u>\$ 12,776,501</u>	 <u>\$ 13,669,176</u>

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

Depreciation and amortization expense amounted to \$1,061,949 and \$1,076,815 in 2019 and 2018, respectively.

**Newark Community Health Centers, Inc.**

**Notes to Financial Statements  
December 31, 2019 and 2018**

**Note 5 - Refundable advances**

Refundable advances consist of the following at December 31:

	<u>2019</u>	<u>2018</u>
Gilead Sciences, Inc.	\$ -	\$ 30,120
The Horizon Foundation for New Jersey	<u>9,842</u>	<u>-</u>
Total	<u>\$ 9,842</u>	<u>\$ 30,120</u>

**Note 6 - Long-term debt**

Long-term debt consists of the following as of December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
In June 2015, NCHC entered into an agreement with a financial institution. Under the agreement, NCHC received an amount of \$5,227,000, representing the refinancing of the construction loan with The Reinvestment Fund, Inc. The loan is secured by NCHC's property at 741 Broadway, Newark, New Jersey, and is payable in sixty (60) equal monthly installments of \$33,314 (including interest at 4.52% per annum) starting July 25, 2015, and a balloon payment of \$4,363,301 on June 25, 2020. On June 26, 2020, the financial institution provided its approval to extend the due date of the balloon payment to September 25, 2020. At December 31, 2019, the property at 741 Broadway, Newark, New Jersey had a carrying value of \$12,193,536.	\$ 4,429,049	\$ 4,621,055
In September 2016, NCHC entered into an agreement with a financial institution. Under the agreement, NCHC received an amount of \$1,200,000. The loan has a maturity date of September 2, 2023. The loan is secured by equipment and fixtures, inventory and receivable owned by NCHC, and is payable in eighty-four (84) equal monthly installments of \$16,546 (including interest at 4.2% per annum) starting October 2, 2016.	<u>685,982</u>	<u>851,439</u>
Subtotal	5,115,031	5,472,494
Less current maturities	<u>(4,601,613)</u>	<u>(357,464)</u>
Long-term portion	<u>\$ 513,418</u>	<u>\$ 5,115,030</u>

The future scheduled maturities of long-term debt are as follows:

2020	\$ 4,601,613
2021	180,137
2022	187,959
2023	<u>145,321</u>
Total	<u>\$ 5,115,030</u>

**Newark Community Health Centers, Inc.**

**Notes to Financial Statements  
December 31, 2019 and 2018**

NCHC is required to comply with certain covenants under its long-term debt.

**Note 7 - DHHS grants**

For the years ended December 31, 2019 and 2018, NCHC recognized grant revenue from the DHHS as follows:

<u>Grant number</u>	<u>Grant period</u>	<u>Total grant</u>	<u>Revenue recognized</u>
3 H80CS00062-17-08	02/01/18 - 01/31/19	\$ 5,411,703	\$ 799,540
6 H80CS00062-18-12	02/01/19 - 01/31/20	5,754,644	4,733,330
6 H49MC27814-05-03	04/01/18- 03/31/19	728,544	209,137
6 H49MC27814-06-01	04/01/19- 03/31/20	1,092,899	713,358
6 H76HA00054-27-01	01/01/19 - 12/31/19	517,916	517,916
Total DHHS revenue 2019			<u><u>\$ 6,973,281</u></u>

<u>Grant number</u>	<u>Grant period</u>	<u>Total grant</u>	<u>Revenue recognized</u>
6 H80CS00062-16-10	02/01/17 - 01/31/18	\$ 5,532,325	\$ 396,461
3 H80CS00062-17-08	02/01/18 - 01/31/19	5,411,703	4,612,163
6 H49MC27814-04-01	06/01/17- 03/31/18	680,197	190,677
6 H49MC27814-05-03	04/01/18- 03/31/19	728,544	519,407
1 P06HA31455-01-00	09/01/17 - 08/31/18	150,000	100,147
6 H76HA00054-26-02	01/01/18 - 12/31/18	517,916	517,916
Total DHHS revenue 2018			<u><u>\$ 6,336,771</u></u>

**Note 8 - Contracts and other grants**

For the years ended December 31, 2019 and 2018, contracts and other grants revenue consists of the following:

	<u>2019</u>	<u>2018</u>
City of Newark Department of Health and Community Wellness	\$ 436,317	\$ 264,836
Gilead Sciences, Inc.	30,120	149,880
The Horizon Foundation for New Jersey	21,408	-
American Cancer Society, Inc.	-	45,000
International Rescue Committee, Inc.	29,716	33,435
Other	-	3,299
Total	<u><u>\$ 517,561</u></u>	<u><u>\$ 496,450</u></u>

## Newark Community Health Centers, Inc.

### Notes to Financial Statements December 31, 2019 and 2018

#### Note 9 - Retirement plan

The Newark Community Health Centers, Inc. Employees' Retirement Plan (the "Plan") is a defined contribution plan established on January 1, 2001. It is available to substantially all employees of the NCHC who have attained 21 years of age and who have completed one year of eligible service with a minimum of 1,000 hours of service. Contributions may be invested in available investment funds elected by the employee. The Plan has met the requirements of the Employee Retirement Income Security Act of 1974 ("ERISA") and is, therefore, subject to the provisions of ERISA. The Plan provides for benefit distributions to Plan participants or their beneficiaries upon the participant's retirement, termination of employment or death. Any participant may apply to borrow all or part of his or her vested account balance subject to criteria in the Plan set by Internal Revenue Service regulations and limits and the approval of the Plan administrator. Participants are fully vested after five years of service in the employer match but forfeit all of the employer contributions and earnings thereon if the participant leaves with less than two years of service. Pension expense for 2019 and 2018 amounted to \$389,086 and \$384,039, respectively.

#### Note 10 - Commitments and contingencies

NCHC has contracted with various funding agencies to perform certain healthcare services and receives Medicaid and Medicare revenue from the state and federal governments. Reimbursements received under these contracts and payments under Medicaid and Medicare are subject to audit by the federal and state governments and other agencies. Upon audit, if discrepancies are discovered, NCHC may be required to refund the amounts in question.

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

The healthcare industry is subject to voluminous and complex laws and regulations of federal, state and local governments. Compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government healthcare program participation requirements, reimbursement laws and regulations, anti-kickback and anti-referral laws, and false claims prohibitions. In recent years, government activity has increased with respect to investigations and allegations concerning possible violations of reimbursements, false claims, anti-kickback and anti-referral statutes and regulation by healthcare providers. NCHC believes that it is in material compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. Upon audit, if discrepancies are discovered, NCHC could be held responsible for refunding the amount in question.

During the year 2018, NCHC identified certain ineligible patients for whom it received the Letter of Agreement ("LOA") reimbursement of \$101. NCHC self-disclosed the total amount due to the New Jersey Department of Health and Senior Services ("NJDHSS") of \$1,259,470. On February 7, 2019, NCHC reached an agreement with the NJDHSS, and beginning with the January 2019 claims, the amount will be repaid by the NJDHSS reducing the monthly reimbursement to NCHC by \$52,478, until the total amount is paid in full. As of year ended December 31, 2019, the balance due to NJDHSS was \$734,690.

**Newark Community Health Centers, Inc.**

**Notes to Financial Statements  
December 31, 2019 and 2018**

NCHC is involved in claims and legal actions in the ordinary course of business. Management is of the opinion that the ultimate outcome of these matters will not have a material adverse impact on the financial position, results of operations or cash flows of NCHC.

NCHC entered into various lease agreements for the use of space and office equipment which have been classified as operating leases and expire on various dates through to 2026. As of December 31, 2019, NCHC is obligated to make future minimum payments in each of the subsequent five years and thereafter as follows:

2020	\$	491,037
2021		455,618
2022		394,239
2023		406,063
2024		418,253
Thereafter		<u>1,102,260</u>
Total	\$	<u><u>3,267,470</u></u>

A portion of the leased space was subleased to an unaffiliated organization in 2017. The sublease terminates on February 28, 2021 with an option to renew for an additional five years. The above lease expense will be offset by payments due under the sublease as follows:

2020	\$	80,265
2021		<u>13,443</u>
Total	\$	<u><u>93,708</u></u>

Rental expense for 2019 and 2018 under these operating leases was \$910,016 and \$890,779, respectively. Rental income under the sublease was \$78,301 for 2019 and \$76,020 for 2018.

**Note 11 - In-kind contributions**

NCHC occupies certain buildings rent free. These buildings are owned by the City of Newark. Management uses an estimated market rate per square foot to determine the fair rental value of the spaces. NCHC also receives donated vaccines from the New Jersey Department of Health and Senior Services ("NJDHSS"), which are recorded at fair value as determined by NJDHSS. Following is a detailed breakdown of in-kind contributions:

	<u>2019</u>	<u>2018</u>
Donated rent	\$ 76,500	\$ 68,000
Donated vaccines	<u>2,127,289</u>	<u>1,927,898</u>
Total in-kind contributions	<u><u>\$ 2,203,789</u></u>	<u><u>\$ 1,995,898</u></u>

## Newark Community Health Centers, Inc.

### Notes to Financial Statements December 31, 2019 and 2018

#### Note 12 - Management's plans to improve operations and availability and liquidity

As indicated in the accompanying statements of financial position, NCHC has a working capital deficiency of \$701,215 as of December 31, 2019. Management of NCHC plans to address this deficiency primarily through new revenue sources and increased rates of reimbursement for some existing revenue sources and implementation of certain cost reduction measures. On May 22, 2020, NCHC received a loan of \$2,541,895 from a financial institution pursuant to the Paycheck Protection Program ("PPP") under the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act"). On April 7, 2020, NCHC received \$1,769,085, net of legal fees of \$94,167, from the settlement related to the successful challenge by NCHC's trade association related to the wrap payment methodology. Between March 19, 2020 and May 4, 2020, NCHC received coronavirus related awards for a total of \$3,015,598 from the U.S. Department of Health and Human Services ("DHHS") - Health Resources and Services Administration ("HRSA") and a private foundation. Additional revenue enhancement opportunity exists from improvement to reimbursements from Medicare Advantage and private insurance plans that cover approximately 20% of NCHC's patient population. These payors reimburse NCHC an average of 52% of the current Medicaid rate. Renegotiating the contracts with these payors to obtain reimbursement that is at least consistent with the Medicaid rates would improve annual net reimbursements in excess of \$2,000,000. Currently, NCHC providers are not compensated on a pay for performance basis. Over the next two years, NCHC is committed to changes to provider compensation to award providers for quality of care based on productivity metrics. NCHC continues to pursue enhancement of the 340B pharmacy program which has the opportunity to increase the revenue generated each year. NCHC is in the process of renegotiating the terms of its mortgage loan that has a balloon payment of \$4,363,301 due on June 25, 2020. As a result of the coronavirus pandemic, NCHC implemented various cost-cutting measures in response to the reduction in billable visits. NCHC is projecting to save approximately \$1,460,000 in 2020 due to employees that have been terminated or furloughed. Additionally, other expense reductions are projected to save approximately \$1,400,000, resulting in a total expense reduction of approximately \$2,860,000. NCHC anticipates some of these reductions will be reversed to correspond to the gradual increase in patient volume. Long-term expense management will be improved by enhanced budget management including regular full time equivalent monitoring and review of expenses. A recent example includes consolidating all copier services to one vendor saving over \$8,000 per month. Finally, modernizing the finance functions utilizing technology enhancements present additional opportunities to save costs.

On a regular basis, NCHC monitors the availability of resources required to meet its operating needs and other contractual commitments. For the purposes of analyzing resources available to meet general expenditures over a 12-month period, NCHC considers all expenditures related to its ongoing activities as well as the conduct of services undertaken to support these activities to be general expenditures.

**Newark Community Health Centers, Inc.**

**Notes to Financial Statements  
December 31, 2019 and 2018**

The following represents NCHC's financial assets at December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 1,279,493	\$ 1,895,056
Patient services receivable	4,621,500	2,350,905
340B pharmacy program receivable	452,043	597,172
Contracts and other grants receivable	<u>46,432</u>	<u>133,118</u>
Financial assets available to meet general expenditures over the next 12 months	<u>\$ 6,399,468</u>	<u>\$ 4,976,251</u>

In addition to the aforementioned assets available to meet general expenditures over the next 12 months, NCHC operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures.

**Note 13 - Subsequent events**

In December 2019 and early 2020, the coronavirus that causes COVID-19 was reported to have surfaced in China. The spread of this virus globally in early 2020 has caused business disruption domestically in the United States, the area in which NCHC primarily operates. While the disruption is currently expected to be temporary, there is considerable uncertainty around the duration of this uncertainty. Therefore, while NCHC expects this matter to negatively impact NCHC's financial condition, results of operations, and cash flows, the extent of the financial impact and duration cannot be reasonably estimated at this time.

On May 22, 2020 (the "funding date"), NCHC received a loan of \$2,541,895 from a financial institution pursuant to the Paycheck Protection Program ("PPP") under the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act"). Under the PPP, there is a deferment period that commences on the funding date and ends six months from the funding date. No principal or interest payments will be due prior to the end of the deferment period. NCHC shall apply to the financial institution for loan forgiveness if certain conditions are met. If the Small Business Administration ("SBA") confirms full and complete forgiveness of the unpaid balance of the loan, and reimburses the financial institution for the total outstanding balance, principal and interest, NCHC's obligations under the loan will be deemed fully satisfied and paid in full. If the SBA does not confirm forgiveness of the loan, or only partly confirms forgiveness of the loan, or NCHC fails to apply for loan forgiveness, NCHC will be obligated to repay to the financial institution the total outstanding balance remaining under the loan, including principal and interest (the "loan balance"), and in such case, the financial institution will establish the terms for repayment of the loan balance in a separate letter to be provided to NCHC. The letter will set forth the loan balance, the amount of each monthly payment, the interest rate (not in excess of a fixed rate of one percent per annum), the term of the loan, and the maturity date of two years from the funding date of the loan. Payments greater than the monthly payment or additional payments may be made at any time without a prepayment penalty but will not relieve NCHC of its obligations to pay the next succeeding monthly payment.

**Newark Community Health Centers, Inc.**

**Notes to Financial Statements  
December 31, 2019 and 2018**

On January 24, 2012, NCHC's trade association on behalf of its member centers, filed a lawsuit against the State of New Jersey's Department of Human Services ("DHS") and DHS Division of Medical Assistance and Health Services (the "State") that challenged the Medicaid wraparound supplemental payment methodology. In 2020, a settlement was reached with the State to resolve all unpaid Medicaid claims with dates of service prior to January 1, 2019. On April 8, 2020, NCHC received \$1,863,252, representing its portion of the settlement, which is reflected in patient services receivable on the statements of financial position.

## **Supplementary Information**

**Newark Community Health Centers, Inc.**

**Schedule of Expenditures of Federal and State Awards  
Year Ended December 31, 2019**

Federal grantor/ Pass-through grantor/program or cluster title	Federal CFDA / State number	Pass-through grantor's number	Passed through to subrecipients	Total expenditures
Federal awards				
U.S. Department of Health and Human Services				
Direct programs				
Health Centers Cluster				
Consolidated Health Centers (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, and Public Housing Primary Care)	93.224	N/A	\$ -	\$ 1,397,085
Affordable Care Act (ACA) Grants for New and Expanded Services under the Health Center Program	93.527	N/A	-	4,135,785
Subtotal - Health Centers Cluster			-	5,532,870
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918	N/A	-	517,916
Healthy Start Initiative	93.926	N/A	-	922,495
Passed through City of Newark Department of Health and Community Wellness				
HIV Emergency Relief Project Grants	93.914	Not Available	-	436,317
Passed through International Rescue Committee, Inc.				
Refugee and Entrant Assistance State Administered Programs	93.566	1904NJRCMA	-	29,716
Total expenditures of federal awards			-	7,439,314
State awards				
State of New Jersey Department of Health and Senior Services Preventive and Primary Care Program	03-2090-CHS-N-0		-	*
Total state awards			-	-
Total expenditures of federal and state awards			\$ -	\$ 7,439,314

\* See Note 3 of Notes to Schedule of Expenditures of Federal and State Awards.

See Notes to Schedule of Expenditures of Federal and State Awards.

## Newark Community Health Centers, Inc.

### Notes to Schedule of Expenditures of Federal and State Awards December 31, 2019

#### **Note 1 - Basis of presentation**

The accompanying schedule of expenditures of federal and state awards (the "Schedule") includes the federal and state awards of Newark Community Health Centers, Inc. ("NCHC") under programs of the federal and New Jersey state governments for the year ended December 31, 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") and State of New Jersey, Department of Treasury, Office of Management and Budget Circular 15-08, *Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid*. Because the Schedule presents only a selected portion of the operations of NCHC, it is not intended to and does not present the financial position, change in net assets, or cash flows of NCHC.

#### **Note 2 - Summary of significant accounting policies**

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance and State of New Jersey, Department of Treasury, Office of Management and Budget Circular 15-08, *Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid* wherein certain types of expenditures are not allowable or are limited as to reimbursement. NCHC has not elected to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance because it is not applicable.

#### **Note 3 - Preventive and primary care program**

NCHC contracted with the State of New Jersey Department of Health and Senior Services to provide health and medical services to the uninsured population under the Preventive and Primary Care Program. This letter of agreement pays NCHC a fixed amount per visit regardless of the actual costs incurred. During the year ended December 31, 2019, the amount earned and recognized as net revenue under this letter of agreement for the contract period July 1, 2018 to June 30, 2019 was \$1,034,543 and for the contract period July 1, 2019 to June 30, 2020 was \$874,862.

Revenue for this program is included in patient services revenue in the basic financial statements. Allowances are calculated based on expected cash collections.

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

To the Board of Directors  
Newark Community Health Centers, Inc.

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 financial statements of Newark Community Health Centers, Inc. ("NCHC"), which comprise the statement of financial position as of December 31, 2019, and the related statements of activities and changes in net assets, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 26, 2020.

*Internal Control over Financial Reporting*

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

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

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

*Compliance and Other Matters*

As part of obtaining reasonable assurance about whether NCHC'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 NCHC's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering NCHC's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*CohnReznick LLP*

New York, New York  
June 26, 2020

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

To the Board of Directors  
Newark Community Health Centers, Inc.

Report on Compliance for Each Major Federal and State Program

We have audited Newark Community Health Centers, Inc.'s ("NCHC") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* and State of New Jersey, Department of Treasury, Office of Management and Budget Circular 15-08, *Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid*, ("New Jersey OMB Circular 15-08") that could have a direct and material effect on each of NCHC's major federal and state programs for the year ended December 31, 2019. NCHC's major federal and state programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

*Management's Responsibility*

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

*Auditor's Responsibility*

Our responsibility is to express an opinion on compliance for each of NCHC's major federal and state programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and New Jersey OMB Circular 15-08. 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 or state program occurred. An audit includes examining, on a test basis, evidence about NCHC's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

*Opinion on Each Major Federal and State Program*

In our opinion, NCHC complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal and state programs for the year ended December 31, 2019.

## Report on Internal Control over Compliance

Management of NCHC 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 NCHC's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal and state program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal and state program and to test and report on internal control over compliance in accordance with the Uniform Guidance and New Jersey OMB Circular 15-08, 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 NCHC'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 or state program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal and state 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 and state program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. 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 and New Jersey OMB Circular 15-08. Accordingly, this report is not suitable for any other purpose.



New York, New York  
June 26, 2020

**Newark Community Health Centers, Inc.**

**Schedule of Findings and Questioned Costs  
Year Ended December 31, 2019**

**Section I - Summary of Auditor's Results**

Financial Statements:

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

Unmodified

Internal control over financial reporting:

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

Noncompliance material to financial statements noted? \_\_\_\_\_ yes  no

Federal and State Awards:

Internal control over major programs:

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

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

Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? \_\_\_\_\_ yes  no

Identification of major programs:

CFDA and State Number(s)

Name of Federal and State Programs

	U.S. Department of Health and Human Services:
	Health Centers Cluster:
93.224	Consolidated Health Centers
93.527	Affordable Care Act (ACA) Grants for New and Expanded Services Under the Health Center Program
93.926	Healthy Start Initiative
	State of New Jersey Department of Health and Senior Services
03-2090-CHS-N-0	Preventive and Primary Care Program

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

\$750,000

Auditee qualified as low-risk auditee? \_\_\_\_\_  yes \_\_\_\_\_ no

**Newark Community Health Centers, Inc.**  
**Schedule of Findings and Questioned Costs**  
**Year Ended December 31, 2019**

**Section II - Financial Statement Findings**

None

**Section III - Federal and State Award Findings and Questioned Costs**

None



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