The Wright Center for Graduate Medical Education

Financial Statements and
Supplementary Information

June 30, 2019 and 2018

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Independent Auditors' Report

To the Board of Directors of
The Wright Center for Graduate Medical Education

Report on the Financial Statements

We have audited the accompanying financial statements of The Wright Center for Graduate Medical Education (the "Organization"), which comprise the statements of financial position as of June 30, 2019 and 2018, and the related statements of activities, 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.

Auditors' 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 the entity'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 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 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 the Organization as of June 30 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

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal 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) is presented for purposes of additional analysis and is not a required part of the 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 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 December 27, 2019 on our consideration of the Organization'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 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

Baker Tilly Virchow Krause, LLP

Wilkes-Barre, Pennsylvania
December 27, 2019

The Wright Center for Graduate Medical Education

Statements of Financial Position
June 30, 2019 and 2018

	2019	2018
Assets		
Current Assets		
Cash	$ 1,206,238	$ 611,252
Accounts receivable	1,613,747	1,520,799
Grants receivable	143,227	1,425,866
Prepaid expenses and other current assets	363,153	85,688
Due from affiliate	1,816,640	132,446
Total current assets	5,143,005	3,776,051
Investments		
Long-term	5,410,082	4,886,752
Deferred compensation	903,007	756,429
Property and Equipment, Net	113,443	135,576
Total assets	$ 11,569,537	$ 9,554,808
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	$ 1,224,631	$ 1,312,343
Accrued wages	795,491	641,247
Payroll withholdings payable	464,807	639,806
Deferred revenue	9,428	9,428
Total current liabilities	2,494,357	2,602,824
Deferred Compensation Payable	903,007	756,429
Total liabilities	3,397,364	3,359,253
Net Assets		
Net assets without donor restrictions	8,172,173	6,195,555
Total liabilities and net assets	$ 11,569,537	$ 9,554,808

See notes to financial statements

The Wright Center for Graduate Medical Education

Statements of Activities
Years Ended June 30, 2019 and 2018

	2019	2018
Revenues, Gains and Other Support		
Federal grants	$ 16,792,105	$ 15,286,039
Hospital affiliation agreement funding residency and fellowship program	11,719,363	10,629,721
Hospital reimbursement, clinic	1,692,026	1,993,090
IRB and research fees	9,910	14,150
Interest and dividends, net	123,870	109,811
Total revenues, gains and other support	30,337,274	28,032,811
Expenses		
Program services:		
Residency and fellowship programs	9,172,443	8,553,132
Grant expenses	13,550,264	11,749,573
School-based	15,177	21,672
Other	35,263	14,384
Total program services	22,773,147	20,338,761
Support services,		
Management and general	5,333,065	4,370,962
Total expenses	28,106,212	24,709,723
Revenues in excess of expenses	2,231,062	3,323,088
Other Income		
Realized and unrealized gains and losses, net	136,634	189,238
Impairment loss on other investment	(391,078)	(1,852,455)
Change in net assets	1,976,618	1,659,871
Net Assets, Beginning of Year	6,195,555	4,535,684
Net Assets, End of Year	$ 8,172,173	$ 6,195,555

See notes to financial statements

The Wright Center for Graduate Medical Education

Statement of Functional Expenses
Year Ended June 30, 2019

	Program Services				Support Services	
	Residency and Fellowship Programs	Grant Expenses	School-Based	Other	Management and General	Total
Salaries	$ 6,155,394	$ 6,925,330	$ -	$ -	$ 2,539,327	$ 15,620,051
Employee benefits	734,797	761,456	-	-	730,898	2,227,151
Payroll taxes and other expenses	379,675	436,363	-	-	259,857	1,075,895
Total salaries and related expenses	7,269,866	8,123,149	-	-	3,530,082	18,923,097
Audit and legal fees	115,086	460	-	-	274,748	390,294
Medical supplies	78	148	-	-	914	1,140
Other contracted services	265,664	1,018,897	-	7,265	241,940	1,533,766
Supplies and other expenses	8,522	10,115	-	11,779	199,532	229,948
Telephone/answering srvc/internet	106,913	41,875	-	119	54,076	202,983
Postage/printing/advertising	21,276	59,245	-	19	95,579	176,119
Books/subscriptions/dues	86,565	144,909	-	14,303	36,752	282,529
Occupancy and parking	-	15,829	-	-	267,161	282,990
Recruiting	39,321	26,718	-	-	133,527	199,566
Depreciation	716	-	15,177	-	68,261	84,154
Maintenance/repair/support	3,130	(15)	-	-	262,578	265,693
Conference/meeting/travel	193,066	318,994	-	1,778	149,774	663,612
Professional liability insurance	270,401	381,644	-	-	13,250	665,295
Miscellaneous expense	1,653	1,770	-	-	4,889	8,312
THC learning environments	692,386	3,274,664	-	-	2	3,967,052
Administrative and support costs	97,800	131,862	-	-	-	229,662
	$ 9,172,443	$ 13,550,264	$ 15,177	$ 35,263	$ 5,333,065	$ 28,106,212

See notes to financial statements

The Wright Center for Graduate Medical Education

Statement of Functional Expenses
Year Ended June 30, 2018

	Program Services				Support Services	
	Residency and Fellowship Programs	Grant Expenses	School-Based	IRB Clinical Research	Management and General	Total
Salaries	$ 5,923,808	$ 6,153,433	$ -	$ 1,643	$ 2,143,727	$ 14,222,611
Employee benefits	736,005	771,205	-	-	536,673	2,043,883
Payroll taxes and other expenses	361,050	427,314	-	126	201,758	990,248
Total salaries and related expenses	7,020,863	7,351,952	-	1,769	2,882,158	17,256,742
Audit and legal fees	56,759	1,451	-	-	87,662	145,872
Medical supplies	17	-	-	-	-	17
Other contracted services	183,337	464,482	-	9,340	252,766	909,925
Supplies and other expenses	8,476	7,870	-	1,111	233,940	251,397
Telephone/answering srvc/internet	72,896	57,175	-	-	47,614	177,685
Postage/printing/advertising	2,170	57,940	-	-	109,028	169,138
Books/subscriptions/dues	85,514	185,640	-	190	31,221	302,565
Occupancy and parking	3	60	-	-	225,038	225,101
Recruiting	63,904	1,895	-	-	133,159	198,958
Depreciation	7,062	301	21,672	-	82,259	111,294
Maintenance/repair/support	2,232	84	-	-	94,744	97,060
Conference/meeting/travel	149,443	230,532	-	1,974	154,619	536,568
Professional liability insurance	341,699	408,367	-	-	13,204	763,270
Interest expense	-	-	-	-	11,130	11,130
Miscellaneous	(5)	(1,228)	-	-	12,420	11,187
THC learning environments	465,379	2,879,176	-	-	-	3,344,555
Administrative and support costs	93,383	103,876	-	-	-	197,259
	$ 8,553,132	$ 11,749,573	$ 21,672	$ 14,384	$ 4,370,962	$ 24,709,723

See notes to financial statements

The Wright Center for Graduate Medical Education

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

	2019	2018
Cash Flows from Operating Activities		
Change in net assets	$ 1,976,618	$ 1,659,871
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Net realized and unrealized gain on investments	(136,634)	(189,238)
Depreciation	84,154	111,294
Impairment loss on other investment	391,078	1,852,455
Changes in assets and liabilities:		
Accounts receivable	(92,948)	(380,663)
Grants receivable	1,282,639	246,910
Due to/from affiliate	(1,684,194)	(2,325,492)
Prepaid expenses and other current assets	(277,465)	(52,638)
Accounts payable	(87,712)	466,341
Payroll withholdings payable	(174,999)	(23,444)
Accrued wages	154,244	49,839
Accrued pension	-	8,177
Deferred revenue	-	(5,323)
Deferred compensation plan	146,578	171,260
Net cash provided by operating activities	1,581,359	1,589,349
Cash Flows from Investing Activities		
Proceeds from sale of long-term investments	1,349,251	8,108
Purchase of long-term investments	(2,273,603)	(1,278,570)
Purchase of property and equipment	(62,021)	(74,507)
Net cash used in investing activities	(986,373)	(1,344,969)
Increase in cash	594,986	244,380
Cash, Beginning	611,252	366,872
Cash, Ending	$ 1,206,238	$ 611,252

See notes to financial statements

1. Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

The Wright Center for Graduate Medical Education (the "Organization"), is a non-profit corporation operating from facilities located in Scranton, Pennsylvania. The principal activity of the organization is to provide medical education instruction in a primary care internal residency program at hospitals and outpatient clinics.

The Organization's major program services are as follows:

Residency and Fellowship Programs: The residency program provides medical educational instruction in primary care internal and family medicine residency programs at affiliated hospitals and clinics. Beginning July 1, 2017, the Psychiatry residency program provides psychiatric medical educational instruction at affiliate hospitals and clinics. The Cardiology Fellowship Program and beginning July 1, 2018 the Gastroenterology Fellowship Program provides medical educational instruction focusing on a discipline specific curriculum. These programs are operated pursuant to affiliation agreements as described in Note 7.

Grant Programs: The Organization receives federal grant funding for several programs. The Teaching Health Center Graduate Medical Education Program was established as an internal and family medicine residency program that trains graduated physicians to become American Board of Internal Medicine certified internists or American Board of Family Medicine certified family physicians in Northeastern Pennsylvania and through 4 national sites located in Arizona, Ohio, Washington and Washington D.C. The program has promoted medical education throughout the region, at a time when the area has a serious shortage of medical manpower.

The Primary Care Training Expansion program aims to enhance primary care workforce education by motivating and better preparing increased numbers of trainees toward satisfying careers in the provision of high-quality, team-based care for the nation's underserved.

The School-based program was created when the Organization was awarded $500,000 through the Affordable Care Act grants for a school-based health center capital program which was utilized in collaboration with the North Pocono Districts. These funds were utilized to renovate and upgrade the nursing suites with the sole purposes of providing necessary space for the development of health services provided to students in the school. The grant was awarded in December 2012. The grant period is two years and was extended through February 2015.

Subsequent Events

The Organization has evaluated subsequent events for recognition or disclosure through December 27, 2019, the date the financial statements were available to be issued.

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.

Net Assets

Net assets, revenues, gains, and other support are classified based on the existence or absence of donor-imposed restrictions. Net assets without donor restrictions represents amounts available for use in general operations and not subject to donor-imposed restrictions. All revenue not restricted by donors and donor-restricted contributions whose restrictions are met in the same period in which they are received are accounted for in net assets without donor restriction.

Accounts Receivable

The Organization's accounts receivable consists substantially of amounts due from local hospitals under affiliation agreements with the Organization as described in Note 7. Accounts receivable are reported at the net realizable value. Accounts are written off when they are determined by management to be uncollectible based upon management's assessment of individual accounts. Recoveries of accounts receivable written off, if any, are credited to the bad debt expense account. Management has determined a reserve for bad debts is not necessary due to the current status and nature of the accounts.

Grants Receivable

Grants receivable consists of amounts due from state and federal agencies for expenses incurred in relation to the grant programs of the Organization.

Investments and Investment Risk

Investments in mutual funds with readily determinable fair values are measured at fair value. Realized and unrealized gains and losses are included in the change in net assets. Purchases and sales of securities and realized gains and losses are recorded on a trade-date basis.

The Organization's investments are comprised of a variety of financial instruments and are measured by the third-party investment advisor. The fair values reported in the statement of financial position are subject to various risks including changes in equity markets, the interest rate environment, and general economic conditions. Due to the level of risk associated with certain investment securities, it is reasonably possible that the amounts reported in the accompanying financial statements could change materially in the near term.

Other Investment

The Organization has a financial interest in the Keystone Accountable Care Organization, LLC which is recorded at cost based on the Organization's lack of control. In 2019 and 2018, impairment losses were recognized for the value of the investment.

Property and Equipment

Property and equipment are carried at cost or, if donated, at the approximate fair value at the date of donation. Depreciation is computed using the straight-line method based on the estimated useful life of each class of depreciable asset.

Deferred Revenue

Amounts that have not yet been expended under the grant agreements of the Organization and therefore have not been recognized as revenue are reported as deferred revenue.

Functional Allocation of Expenses

The expenses of the Organization's various programs and supporting services have been summarized on a functional basis in the statement of activities. Accordingly, certain expenses have been allocated among the programs and supporting services benefited based on actual time and resources used.

New Accounting Standards

Not-for-Profit Financial Statement Presentation

In 2019, the Organization adopted the Financial Accounting Standards Board's ("FASB") Accounting Standards Update ("ASU") No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. ASU No. 2016-14 addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Organization has adjusted the presentation of these financial statements accordingly. ASU No. 2016-14 has been applied retrospectively to all periods presented, except for the disclosure around liquidity and availability of resources. This disclosure has been presented for 2019 only, as allowed by ASU No. 2016-14.

ASU No. 2016-14 changes the following aspects of the consolidated financial statements:

- The unrestricted net asset class has been renamed Net Assets Without Donor Restrictions;
- Fees for investments were reclassified in 2018 from management and general expenses to interest and dividends, net for $27,158.
- The financial statements include a disclosure about liquidity and availability of resources at June 30, 2019 (Note 11).

Revenue Recognition

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. ASU No. 2014-09 supersedes the revenue recognition requirements in Topic 605, *Revenue Recognition*, and most industry-specific guidance. Under the requirements of ASU No. 2014-09, the core principle is that entities should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The Organization will be required to retrospectively adopt the guidance in ASU No. 2014-09 for years beginning after December 15, 2018. The Organization has not yet determined the impact of adoption of ASU No. 2014-09 on its financial statements.

Contributions

During June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The new guidance is intended to clarify and improve accounting guidance for contributions received and contributions made. The amendments in this ASU should assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. ASU 2018-08 is effective for years beginning after December 15, 2018. The Organization has not yet determined the impact of adoption of ASU No. 2018-09 on its financial statements.

Lease Accounting

In February 2016, the FASB issued ASU No. 2016-02, *Leases*. ASU No. 2016-02 was issued to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. Under the provisions of ASU No. 2016-02, a lessee is required to recognize right-to-use assets and lease liabilities, initially measured at the present value of the lease payments, in the balance sheet. In addition, lessees are required to provide qualitative and quantitative disclosures that enable users to understand more about the nature of the Organization's leasing activities. The Organization will be required to retrospectively adopt the guidance in ASU No. 2016-02 for years beginning after December 15, 2020. The Organization has not yet determined the impact ASU No. 2016-02 will have on its financial statements.

Reclassifications

Certain amounts relating to 2018 have been reclassified to conform to the 2019 reporting format.

2. Due to Affiliate

The Wright Center Medical Group d/b/a The Wright Center for Community Health ("WCMG") is a non-profit affiliated organization which provides primary care patient care services including dental and behavioral health services. The Organization's faculty service program has been operated by this affiliated organization. These organizations are affiliated through the employment of a common management team and through the shared employment of medical residents utilized by each organization in furtherance of the medical education programs. Each organization is governed by a separate and distinct board of directors.

The balance due from WCMG as of June 30, 2019 and 2018 was $1,807,894 and $132,446, respectively. The inter-company transactions arise from the fact that the two entities share a common paymaster for most employees for payroll related and certain other transactions associated with the affiliates clinical care operations. Payroll and related expenses of the faculty members and administrative employees are charged based upon employment agreements, and through the sharing of administrative services provided to each organization. Salaries and employee benefits paid to the Organization by WCMG were approximately $10,139,000 in 2019 and $10,140,000 in 2018. The Organization also reimbursed WCMG approximately $5,196,000 and $7,441,000 in 2019 and 2018, respectively, related to expenses incurred by WCMG for time provided to the teaching and administration of the Organization's teaching health center grant provided by the employees of WCMG. Other expenses paid to the Organization by WCMG were approximately $3,914,000 in 2019 and $3,936,000 in 2018. As indicated in Note 7, WCMG also sub-leases a portion of administrative offices from the Organization.

3. Investments, Fair Value

The Organization measures its long-term investments at fair value on a recurring basis. Fair value is defined as the price that would be received to sell an asset or the price that would be paid to dispose of a liability in an orderly transaction between market participants at the measurement date. The framework established for measuring fair value includes a hierarchy used to classify the inputs used in measuring fair value. The hierarchy prioritizes the inputs used in determining valuations into three levels. The level in the fair value hierarchy within which the fair value measurement falls is determined based on the lowest level input that is significant to the fair value measurement. The levels of the fair value hierarchy are as follows:

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

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

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

The Organization had no Level 2 or Level 3 investments as of June 30, 2019 and 2018.

The financial instruments were measured with the following inputs at June 30, 2019 and 2018:

	2019	
	Total	**Quoted Prices in Active Markets for Identical Assets (Level 1)**
Investments		
Long-term:		
Cash and cash equivalents	$ 57,885	$ 57,885
Mutual funds, bonds	199,312	199,312
Mutual funds, equity securities	5,152,885	5,152,885
Total long-term	5,410,082	5,410,082
Deferred compensation,		
Mutual funds, equity securities	903,007	903,007
Total	$ 6,313,089	$ 6,313,089

	2018	
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)
Investments		
Long-term:		
Mutual funds, bonds	$ 2,325,792	$ 2,325,792
Mutual funds, equity securities	2,560,960	2,560,960
Total long-term	4,886,752	4,886,752
Deferred compensation,		
Mutual funds, equity securities	756,429	756,429
Total	$ 5,643,181	$ 5,643,181

The Organization entered into an agreement to purchase a membership interest in Keystone Accountable Care Organization, LLC which is recorded at cost and, therefore, is excluded from the fair value tables above. During 2019, the Organization made additional contributions as required per the terms of the agreement of $391,078. Impairment losses of $391,078 and $1,852,455 were recognized in 2019 and 2018, respectively for the value of the investment.

Investment income, fees, and gains and losses for long-term investments are comprised of the following:

	2019	2018
Interest and dividends, net	$ 123,870	$ 109,811
Other income:		
Realized gain on sale of securities, net	1,321,131	110,413
Change in unrealized gains and losses	(1,184,497)	78,825
Total	$ 260,504	$ 299,049

4. Deferred Compensation

In 2012, the Organization created a non-qualified deferred compensation plan for its President and CEO. The Organization contributed the maximum permitted under IRS regulations annually. The President and CEO is immediately vested in the amounts contributed. The carrying value of the investments associated with this plan was $130,404 and $104,570 at June 30, 2019 and 2018, respectively. Amounts are payable under this plan at the earlier of the participant's death, disability, severance from employment with the Organization, April of the calendar year following the year in which the participant attains age 70½, or in the event of an approved financial hardship due to an unforeseeable emergency. Ongoing contributions to the plan amounted to $18,500 in 2019 and $18,000 in 2018.

In 2014, the Organization established another non-qualified deferred compensation plan with top level executive positions to enhance recruitment and retention. The carrying value of the investments associated with this plan was $557,270 and $651,859 at June 30, 2019 and 2018, respectively. The assets associated with this plan are held to settle the liability and are restricted to be used only for that purpose. Amounts are payable under this plan at the earlier of the participant's death, disability, severance from employment with the Organization, April of the calendar year following the year in which the participant attains age 70½, or in the event of an approved financial hardship due to an unforeseeable emergency. Participants in the plan vest over a three year period. Ongoing contributions to the plan amounted to $174,208 in 2019 and $177,791 in 2018.

During 2019, the Organization identified plan design flaws with the original executive plan as designed by outside benefits counsel and is in the process of defining and executing corrective actions to resolve the issues. Estimated costs of implementing the corrections have been accrued at June 30, 2019. Due to the level of risk associated with this estimate, it is reasonably possible that the amounts reported in the accompanying financial statements could change materially in the future.

The Organization established a new executive non-qualified deferred compensation plan during fiscal year 2019. The carrying value of the investments associated with the plan was $215,333 at June 30, 2019. The assets associated with this agreement are held to settle the liability and are restricted to be used only for that purpose. Amounts are payable under the plan at the earlier of the participant's death, disability, severance from employment with the Organization, April of the calendar year following the year in which the participants attain age 70½, or in the event of an approved financial hardship due to an unforeseeable emergency. Participants in plan vest immediately. Contributions to the plan amounted to $215,333 in 2019.

5. Property and Equipment

Property and equipment is as follows:

	2019	2018
Furniture and fixtures	$ 59,757	$ 60,665
Medical equipment	83,852	86,342
Office equipment	26,832	26,832
Computer software	61,583	94,150
Computer equipment	575,689	521,795
Electronic medical records equipment	-	114,273
Total	807,713	904,057
Less accumulated depreciation	(694,270)	(768,481)
Property and equipment, net	$ 113,443	$ 135,576

Property and equipment is considered owned by the Organization while used under the Affordable Care Act - Grants for School-Based Health Centers Capital Program and in other future authorized programs; however, the United States Federal Government has a reversionary interest in certain property and equipment with a depreciated cost of $13,912 and $29,090 at June 30, 2019 and 2018, respectively. The disposition of such items and any proceeds therefrom is subject to federal regulations.

6. Line of Credit

The Organization has a line of credit agreement with a local bank for $1,000,000 which expires in March 31, 2020 and is guaranteed by WCMG. The line of credit is secured by substantially all assets of the Organization. Interest on the line of credit is based on the Wall Street Journal prime rate (5.5 percent at June 30, 2019). There was no outstanding balance on the line of credit at June 30, 2019.

7. Commitments and Contingencies

Operating Leases

The Organization has several leases for property and other tangible property which expire at various dates through 2021 and are classified as operating leases. Most of the leases provide for a minimum annual rental plus other operating expenses applicable to the leased assets.

Minimum future rentals on non-cancelable operating leases as of June 30, 2019 are as follows:

Years ending June 30:	
2020	$ 7,995
2021	4,701
Total	$ 12,696

Rent expense, net of sublease income, for these operating leases was $142,836 in 2019 and $127,420 in 2018.

In July 2019, the Organization entered into an amended and restated lease agreement for medical clinic space and its administrative offices located at a new facility. The lease agreement is expected to begin in the second quarter of fiscal year 2020 and will continue for a period of 15 years. Under the terms of the agreement, the Organization will pay $34,742 in rent for the first 2 years and rent will increase by 1.5 percent annually thereafter.

Sublease

The Organization has an agreement to sub-lease a portion of its administrative offices to its affiliate, WCMG. The sub-lease agreement requires WCMG to reimburse the Organization $11,692 monthly for its portion of the administrative offices plus expenses associated with its occupancy.

In July 2019, the Organization entered into an agreement to sub-lease agreement a portion of its medical clinic space and its administrative offices located at a new facility to WCMG. The sublease agreement is expected to begin in the second quarter of fiscal year 2020 and will be for a period of 12 years. Under the terms of the agreement, WCMG will pay $26,511 in rent to the Organization for the first 2 years and rent will increase by 1.5 percent annually thereafter.

Affiliation Agreements

Residency Program: The Organization has affiliation agreements with four Scranton and Wilkes-Barre, Pennsylvania hospitals in order to promote and support the Internal and Family Medicine and Psychiatry Residency Programs. The agreements provide, in part, that the Organization will administer and operate the Residency Program within the participating hospitals and the participating hospital will provide administrative, technical and financial support for the program, including full coverage of residents' employment salaries and benefits. Such support includes providing financial resources to support and maintain the operating budget of the Program as well as providing facilities, equipment, professional and technical support personnel. Total participating hospital contributions for the residency program was $10,669,842 and $9,663,249 for the years ended June 30, 2019 and 2018, respectively.

Cardiology and Gastroenterology Fellowship: The Organization has affiliation agreements with three Scranton, Pennsylvania hospitals in order to promote and support the Cardiology Fellowship Program and beginning July 1, 2018 a Gastroenterology Fellowship program through an affiliation with one Scranton hospital. The agreements provide, in part, that the Organization will administer and operate the Fellowship Programs within the participating hospitals and the participating hospital will provide administrative, technical and financial support for the program. Such support includes providing financial resources to support and maintain the operating budget of the Program as well as providing facilities, equipment, professional and technical support personnel. Total participating hospital contributions for the Cardiology and Gastroenterology Fellowship Programs was $1,049,521 and $966,472 for the years ended June 30, 2019 and 2018, respectively.

Retirement Plans

The Organization has a defined contribution benefit plan (the "Plan") for all eligible employees. Participants become 100 percent vested in the Plan after one year of service. The Organization is required to make annual contributions to the Plan equal to 6.5 percent of eligible compensation for all non-resident employees. Annual contributions to the Plan equal to 3 percent are required for residents. The Organization's pension expense was $429,761 in 2019 and $385,714 in 2018.

The Organization also maintains an Internal Revenue Code ("IRC") Section 403(b) Deferred Wage Plan funded solely through employee contributions.

Contingencies

The Organization is subject to lawsuits and other claims arising out of operation of its business. After consultation with legal counsel, management estimates that these matters will be resolved without material adverse effect on the financial statements of the Organization.

8. Concentrations of Credit Risk

The Organization's primary operations and service area includes Lackawanna County, Pennsylvania and its surrounding communities. The Organization received approximately 39 percent and 38 percent of its revenues from amounts generated under the affiliation agreements mentioned in Note 7 in 2019 and 2018, respectively.

The Organization received approximately 55 percent of its revenues from amounts generated under federal grants for 2019 and 2018, respectively. These revenues are subject to administrative directives, rules, and regulations of the federal agencies and may be subject to change. In addition, the federal grants are required to follow certain requirements based on the terms of the underlying agreements and can be subject to audit by the federal agencies.

The Organization maintains its cash and cash equivalents with several financial institutions. Cash and cash equivalents on deposit with any one financial institution are insured to $250,000.

9. Income Taxes

The Organization is a not-for-profit corporation exempt as described in Section 501(c)(3) of the IRC and is exempt from federal income taxes on their exempt income under Section 501(a) of the IRC.

The Organization accounts for uncertainty in income taxes by prescribing a recognition threshold of more likely than not to be sustained upon examination by the appropriate taxing authority. Measurement of the tax uncertainty occurs if the recognition threshold has been met. Management determined that there were no tax uncertainties that met the recognition threshold in 2019 and 2018.

10. Medical Malpractice Claims Coverage

Primary Coverage

Primary medical and professional liability coverage for the Organization is being provided on a claims-made basis through an unrelated insurance company. The coverage limits for medical malpractice claims are $500,000 or $1,000,000 per occurrence and either $1,500,000 for physicians and surgeons or $3,000,000 for the entity, in the aggregate per year. Based on the Organization's claims experience, no accrual has been made for any reported and unreported incidents. It is reasonably possible that circumstances could change materially in the near term.

MCARE Fund Coverage

The Pennsylvania Medical Care Availability and Reduction of Error Fund ("MCARE Fund") provides excess coverage per the Pennsylvania law governing the MCARE Fund. Pursuant to the per occurrence and aggregate limits set forth in the controlling Pennsylvania statutes, the MCARE Fund provides coverage for losses in excess of the primary coverage that was in effect on the date of the incident. The cost of MCARE Fund coverage is recognized as expense in the period incurred. Increases in annual surcharges and concerns over the MCARE Fund's ability to manage and pay claims continue to result in proposals to reform or restructure the MCARE Fund. The Organization will be required to purchase additional primary insurance to take the place of the MCARE Fund coverage as it phases out. Depending upon the ultimate resolution of this matter, the Organization may incur additional insurance costs.

11. Liquidity and Availability

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

Cash	$ 1,206,238
Accounts receivable, net	1,613,747
	$ 2,819,985

The Organization's investments are $5,410,082 have been excluded from the table above. Although the Organization does not intend to utilize these funds for general expenditures as part of its annual budget and approval process, amounts could be made available as necessary.

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. In addition, the Organization invests excess cash in investments.

12. Subsequent Event

On July 26, 2019, the Organization, along with WCMG, entered into a New Markets Tax Credits financing transaction in connection with the renovation and outfitting of a leased facility which will contain a comprehensive primary care facility, a graduate medical education center and administrative offices for both entities. In connection with this financing, the Organization entered into two loan agreements with PCDC Health Opportunities Fund XXVII, LLC, which include Term Loan A in the amount of $6,284,150 and Term Loan B in the amount of $2,930,850, with an aggregate principal amount of $9,215,000, secured by certain equipment and other assets of the Organization. Both loans bear interest at 1.1975% and are payable in quarterly interest only payments until September 30, 2026, at which time the New Markets Tax Credit compliance period ends. Beginning December 5, 2026 quarterly payments of $100,804 including principal and interest will be made until maturity in July 2034 at which time remaining principal is due.

The Wright Center for Graduate Medical Education

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

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Award Number	Passed Through Agency	Program Period	Federal Expenditures
U.S. Department of Health and Human Services,					
Primary Care Training and Enhancement	93.884	T0BHP30028-02	Health Resources and Services Administration	7/1/18-6/30/19	$ 17,836
Primary Care Training and Enhancement	93.884	T0BHP30028-03	Health Resources and Services Administration	7/1/18-6/30/19	312,130
Total Primary Care Training and Enhancement					329,966
Federal program not required to be reported on Schedule of Expenditures of Federal Awards based on 2 CFR 200 Part F					
Affordable Care Act - Teaching Health Center Graduate Medical Education Payment Program	93.530	T91HP21546-07	Health Resources and Services Administration	7/1/18-6/30/19	7,531,107
Affordable Care Act - Teaching Health Center Graduate Medical Education Payment Program	93.530	T91HP25794-06	Health Resources and Services Administration	7/1/18-6/30/19	2,149,417
Affordable Care Act - Teaching Health Center Graduate Medical Education Payment Program	93.530	T91HP25793-06	Health Resources and Services Administration	7/1/18-6/30/19	5,650,168
Total Affordable Care Act - Teaching Health Center Graduate Medical Education Payment Program					15,330,692
Total expenditures of federal awards					$ 15,660,658

See notes to schedule of expenditures of federal awards

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of The Wright Center for Graduate Medical Education (the "Organization") 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 ("CFR") Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), except as discussed in Note 4. Therefore, some amounts may differ from amounts presented in, or used in the preparation of, the financial statements. Federal expenditures on the accompanying schedule of expenditures of federal awards are included within various functional expense categories in the Organization's financial statements. Because the schedule presents only a select portion of the operations of the Organization, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Organization.

2. Summary of Significant Accounting Policies

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

3. Indirect Cost Rate

The Organization did not elect to use the 10 percent de-minimis indirect cost rate.

4. Affordable Care Act - Teaching Health Center Graduate Medical Payment Program Payment Program - CFDA #93.530

CFDA #93.530 is excluded from coverage under 2 CFR 200, Subpart F - Audit Requirements however the Organization elected to audit the program under Uniform Guidance and submit a data collection form.

Total expenditures of federal awards, excluding CFDA #93.530, were $329,966 for the year ended June 30, 2019. Therefore, the Organization was not required to have an audit performed in accordance with the Uniform Guidance as expenditures of federal awards subject to audit requirements were below the $750,000 threshold.

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

To the Board of Directors of
The Wright Center for Graduate Medical Education

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of The Wright Center for Graduate Medical Education (the "Organization"), which comprise the statement of financial position as of June 30, 2019, and the related statements of activities, 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 December 27, 2019.

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.

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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Baker Tilly Virchow Krause, LLP

Wilkes-Barre, Pennsylvania
December 27, 2019

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

To the Board of Directors of
The Wright Center for Graduate Medical Education

Report on Compliance for the Major Federal Program

We have audited The Wright Center for Graduate Medical Education'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 the Organization's major federal program for the year ended June 30, 2019. The Organization's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for the Organization'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 Title 2 U.S. Code of Federal Regulations ("CFR") 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 the 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.

Opinion on the Major Federal Program

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

Emphasis of Matter

As described in Note 4 to the schedule of expenditures of federal awards, the Organization's federal expenditures subject to audit requirements under Uniform Guidance did not exceed the $750,000 threshold however, the Organization elected to have an audit of compliance and internal control over compliance that considered all programs reported on the schedule of expenditures of federal awards. Our opinion is not modified with respect to this matter.

Report on Internal Control Over Compliance

Management of the Organization 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 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 an 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 a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

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

Baker Tilly Virchow Krause, LLP

Wilkes-Barre, Pennsylvania
December 27, 2019

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued on whether the financial statements audited were prepared in accordance with GAAP:	Unmodified	
Internal control over financial reporting:		
Material weakness(es) identified?	_____ yes	X no
Significant deficiency(ies) identified?	_____ yes	X none reported
Noncompliance material to financial statements noted?	_____ yes	X no

Federal Awards

Internal control over the major federal program:		
Material weakness(es) identified?	_____ yes	X no
Significant deficiency(ies) identified?	_____ yes	X none reported
Type of auditor's report issued on compliance for the major federal program:	Unmodified	
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	_____ yes	X no

Identification of the major federal program:

CFDA Number(s)	Name of Federal Program or Cluster
93.530	Affordable Care Act -Teaching Health Center Graduate Medical Education Payment Program

Dollar threshold used to distinguish between Type A and Type B programs:	$750,000	
Auditee qualified as low-risk auditee?	X yes	_____ no

Section II - Financial Statement Findings

None.

Section III - Federal Award Findings

None.

Section IV - Summary Schedule of Prior Year Audit Findings

None.