Near North Health Service Corporation and Affiliate

Consolidated Financial Report
with Supplemental Information
June 30, 2019

Contents

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Independent Auditor's Report

To the Board of Directors
Near North Health Service Corporation and Affiliate

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Near North Health Service Corporation and Affiliate (the "Organization"), which comprise the consolidated statement of financial position as of June 30, 2019 and the related consolidated statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Near North Health Service Corporation and Affiliate as of June 30, 2019 and the changes in its net assets, functional expenses, and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 2 to the consolidated financial statements, the Organization adopted the provisions of Accounting Standards Update No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities,* for the year ended June 30, 2019 and applied retrospectively to all years presented, except for the liquidity disclosures, as allowed by the standard. Our opinion is not modified with respect to this matter.

Report on Prior Year Consolidated Financial Statements

The consolidated financial statements of Near North Health Service Corporation and Affiliate as of June 30, 2018 were audited by CliftonLarsonAllen LLP, whose report dated November 27, 2018 expressed an unmodified opinion on those statements.

To the Board of Directors
Near North Health Service Corporation and Affiliate

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 9, 2020 on our consideration of Near North Health Service Corporation and Affiliate's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the 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 Near North Health Service Corporation and Affiliate's internal control over financial reporting and compliance.

Plante & Moran, PLLC

January 9, 2020

Consolidated Statement of Financial Position

June 30, 2019 and 2018

	2019	2018
Assets		
Current Assets		
Cash	$ 8,776,906	$ 10,922,533
Certificates of deposit	647,585	976,452
Investments	8,358,309	4,863,155
Receivables:		
Patient account receivables - Net	3,848,812	3,381,886
Other receivables	518,979	432,725
Grants receivable - Net	170,327	379,033
Assets limited as to use	60,413	93,016
Prepaid expenses	217,801	152,036
Total current assets	22,599,132	21,200,836
Notes Receivable (Note 5)	7,793,290	7,793,290
Other Assets		
Interest rate swap (Note 7)	-	10,158
Investment in Alliance	1,429,550	1,194,572
Total other assets	1,429,550	1,204,730
Property and Equipment - Net (Note 6)	18,102,706	19,013,452
Total assets	**$ 49,924,678**	**$ 49,212,308**
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	$ 437,102	$ 309,813
Accrued liabilities:		
Accrued vacation and compensation	753,142	754,418
Accrued expenses	109,282	110,702
Current portion of notes payable	200,000	200,000
Total current liabilities	1,499,526	1,374,933
Long-term Portion of Notes Payable (Note 7)	15,071,000	15,271,000
Interest Rate Swap (Note 7)	42,088	-
Total liabilities	16,612,614	16,645,933
Net Assets		
Without donor restrictions:		
Undesignated	30,387,286	29,704,115
Board designated	2,524,915	2,524,915
Total without donor restrictions	32,912,201	32,229,030
With donor restrictions	399,863	337,345
Total net assets	33,312,064	32,566,375
Total liabilities and net assets	**$ 49,924,678**	**$ 49,212,308**

See notes to consolidated financial statements.

Near North Health Service Corporation and Affiliate

Consolidated Statement of Activities and Changes in Net Assets

Years Ended June 30, 2019 and 2018

	2019	2018
Changes in Net Assets without Donor Restrictions		
Revenue, gains, and other support:		
Net patient service revenue:		
Net patient service revenue:	$ 10,536,965	$ 7,942,741
Provision for bad debts	(2,237,336)	(1,005,648)
Total net patient service revenue	8,299,629	6,937,093
Grants revenue	13,839,981	13,549,014
Contributions	137,190	132,552
United Way	25,060	25,000
Special events	30,345	31,819
Investment income - Net of fees	243,771	174,617
Other income	113,546	152,849
Net assets released from restrictions	387,482	255,602
Total revenue, gains, and other support	23,077,004	21,258,546
Expenses	22,679,218	20,500,497
Increase in Net Assets - Before nonoperating income (expense)	397,786	758,049
Nonoperating Income (Expense)		
Net unrealized gain (loss) on investments	102,653	(65,951)
Change in fair value of interest rate swap	(52,246)	129,953
Unrealized gain on equity investment	234,977	133,758
Total nonoperating income (expense)	285,384	197,760
Increase in Net Assets without Donor Restrictions	683,170	955,809
Changes in Net Assets with Donor Restrictions		
Contributions	450,000	337,345
Net assets released from restrictions	(387,482)	(255,602)
Increase in Net Assets with Donor Restrictions	62,518	81,743
Increase in Net Assets	745,688	1,037,552
Net Assets - Beginning of year	32,566,375	31,528,823
Net Assets - End of year	**$ 33,312,063**	**$ 32,566,375**

Consolidated Statement of Functional Expenses

Year Ended June 30, 2019

	Program Services										Support Services			
	Winfield Moody	Komed Holman	Louise Landau	Cottage View	Sunnyside	Denny Center	Reavis Center	Kostner Center	Other Program Services	Total Program Servces	Management and General	Fundraising	Total Support Services	Total
Salaries and wages	$2,944,022	$2,876,070	$ 493,424	$ 287,594	$ 291,273	$ 158,204	$ 52,959	$ 973,525	$1,437,149	$ 9,514,220	$ 2,689,076	$ 251,215	$2,940,291	$ 12,454,511
Employee benefits	348,125	340,090	65,872	38,394	38,885	21,120	7,070	129,966	191,859	1,181,381	452,482	33,537	486,019	1,667,400
Payroll taxes	199,487	194,883	37,747	22,001	22,282	12,103	4,051	74,475	109,942	676,971	133,242	19,218	152,460	829,431
Total salaries and related expenses	3,491,634	3,411,043	597,043	347,989	352,440	191,427	64,080	1,177,966	1,738,950	11,372,572	3,274,800	303,970	3,578,770	14,951,342
Professional fees	100,730	24,912	14,143	200	4,010	3,870	357	13,202	489	161,913	1,739,469	6,484	1,745,953	1,907,866
Supplies	218,617	975,889	20,186	15,979	15,720	8,394	4,624	72,787	5,122	1,337,318	100,547	5,508	106,055	1,443,373
Telephone	107,441	72,438	8,858	1,404	4,240	1,518	605	34,353	11,524	242,381	82,541	9,029	91,570	333,951
Postage and shipping	1,998	1,800	200	-	200	-	-	1,200	-	5,398	11,676	635	12,311	17,709
Occupancy	121,052	184,290	250,403	85,379	189,450	10,966	773	229,102	32,064	1,103,479	110,584	438	111,022	1,214,501
Equipment rental and maintenance	35,148	32,210	20,597	4,030	2,955	1,588	1,933	16,274	1,594	116,329	9,789	702	10,491	126,820
Printing and publications	1,128	107	107	52	107	52	52	496	45	2,146	4,320	10,607	14,927	17,073
Travel and transportation	3,510	300	-	-	-	-	-	-	-	3,810	1,736	435	2,171	5,981
Conferences, conventions, and meetings	7,670	989	-	149	-	-	-	-	3,452	12,260	124,292	48	124,340	136,600
Dues and subscriptions	11,391	1,332	647	297	467	200	537	1,587	75	16,533	102,092	1,668	103,760	120,293
Insurance	27,925	27,041	4,677	2,772	2,808	1,525	510	9,384	13,853	90,495	79,770	2,422	82,192	172,687
Interest expense	-	-	-	-	-	-	-	111,088	-	111,088	152,487	-	152,487	263,575
In-kind food supplies	-	-	-	-	-	-	-	-	474,873	474,873	-	-	-	474,873
Miscellaneous	37,033	44,624	6,202	5,520	3,723	2,022	677	12,601	25,536	137,938	83,881	74,494	158,375	296,313
Depreciation and amortization	143,545	113,925	27,040	7,305	13,211	2,120	8,894	395,853	281,114	993,007	193,677	9,577	203,254	1,196,261
Total functional expenses	**$4,308,822**	**$4,890,900**	**$ 950,103**	**$ 471,076**	**$ 589,331**	**$ 223,682**	**$ 83,042**	**$2,075,893**	**$2,588,691**	**$16,181,540**	**$ 6,071,661**	**$ 426,017**	**$6,497,678**	**$ 22,679,218**

See notes to consolidated financial statements.

Near North Health Service Corporation and Affiliate

Consolidated Statement of Functional Expenses

Year Ended June 30, 2018

	Program Services										Support Services			
	Winfield Moody	Komed Holman	Louise Landau	Cottage View	Sunnyside	Denny Center	Reavis Center	Kostner Center	Other Program Services	Total Program Services	Management and General	Fundraising	Total Support Services	Total
Salaries and wages	$2,885,234	$2,496,421	$ 422,608	$ 115,984	$ 164,798	$ 38,556	$ 214,059	$ 804,353	$1,356,041	$ 8,498,054	$ 2,476,635	$ 153,036	$2,629,671	$ 11,127,725
Employee benefits	385,179	333,272	56,418	15,484	22,001	5,147	28,577	107,381	181,031	1,134,490	360,177	20,430	380,607	1,515,097
Payroll taxes	182,577	176,048	17,947	8,873	12,607	2,950	10,254	57,193	103,737	572,186	162,989	11,707	174,696	746,882
Total salaries and related expenses	3,452,990	3,005,741	496,973	140,341	199,406	46,653	252,890	968,927	1,640,809	10,204,730	2,999,801	185,173	3,184,974	13,389,704
Professional fees	51,115	31,658	14,956	491	4,747	6,764	225	19,059	1,512	130,527	1,707,633	262	1,707,895	1,838,422
Supplies	87,469	203,628	18,530	13,512	11,553	7,012	2,637	42,637	4,909	391,887	99,159	2,007	101,166	493,053
Telephone	99,367	112,557	17,915	5,714	15,213	1,826	9,601	25,048	50,343	337,584	99,844	8,599	108,443	446,027
Postage and shipping	1,245	1,500	400	200	-	-	-	800	-	4,145	11,213	358	11,571	15,716
Occupancy	111,058	209,271	227,622	81,964	147,403	10,455	15,353	234,347	33,165	1,070,638	116,632	503	117,135	1,187,773
Equipment rental and maintenance	41,978	33,366	10,864	3,699	5,465	2,762	3,082	7,107	354	108,677	3,999	-	3,999	112,676
Printing and publications	2,442	225	156	1,575	155	40	40	258	121	5,012	2,195	432	2,627	7,639
Travel and transportation	2,849	-	-	-	-	-	-	-	-	2,849	2,371	132	2,503	5,352
Conferences, conventions, and meetings	13,465	-	-	-	-	-	-	-	3,114	16,579	104,589	347	104,936	121,515
Dues and subscriptions	20,657	1,195	605	285	85	235	335	1,706	25	25,128	59,128	156	59,284	84,412
Insurance	54,809	272	-	-	-	-	-	-	-	55,081	153,401	-	153,401	208,482
Interest expense	-	-	-	-	-	-	-	-	111,088	111,088	167,318	-	167,318	278,406
Bad debt expense	-	-	-	-	-	-	-	-	-	-	260,785	-	260,785	260,785
In-kind food supplies	-	-	-	-	-	-	-	-	464,749	464,749	-	-	-	464,749
Miscellaneous	14,312	85,903	85	761	106	-	50	506	3,985	105,708	10,424	88,808	99,232	204,940
Depreciation and amortization	236,734	187,884	44,594	12,047	21,788	3,496	14,668	60,818	463,612	1,045,641	319,406	15,795	335,201	1,380,842
Total functional expenses	**$4,190,490**	**$3,873,200**	**$ 832,700**	**$ 260,589**	**$ 405,921**	**$ 79,243**	**$ 298,881**	**$1,361,213**	**$2,777,786**	**$14,080,023**	**$ 6,117,898**	**$ 302,572**	**$6,420,470**	**$ 20,500,493**

Near North Health Service Corporation and Affiliate

Consolidated Statement of Cash Flows

Years Ended June 30, 2019 and 2018

	2019	2018
Cash Flows from Operating Activities		
Increase in net assets	$ 745,688	$ 1,037,552
Adjustments to reconcile increase in net assets to net cash from operating activities:		
Depreciation and amortization	1,196,261	1,380,842
Unrealized loss on investments	102,653	65,951
Income from investment in Alliance	(234,977)	(133,758)
Change in value of interest rate swap	52,246	(129,953)
Provision for patient bad debt	2,237,336	1,005,648
Changes in operating assets and liabilities that (used) provided cash:		
Accounts receivable	(2,704,262)	(1,054,856)
Other receivables	208,706	(374,785)
Grants receivable	(86,254)	413,560
Prepaid expenses and other assets	(65,765)	(7,828)
Accounts payable	80,412	97,220
Accrued expenses	(1,420)	(81,951)
Accrued payroll and vacation	(1,276)	(2,893)
Net cash provided by operating activities	1,529,348	2,214,749
Cash Flows from Investing Activities		
Purchase of property and equipment	(238,638)	(851,861)
Assets limited as to use	32,603	32,787
Purchase of investments	(3,612,642)	(95,239)
Proceeds from sales of investments	343,702	-
Net cash used in investing activities	(3,474,975)	(914,313)
Cash Flows Used in Financing Activities - Payments on long-term debt	(200,000)	(200,000)
Net (Decrease) Increase in Cash	(2,145,627)	1,100,436
Cash - Beginning of year	10,922,529	9,822,093
Cash - End of year	**$ 8,776,902**	**$ 10,922,529**
Supplemental Cash Flow Information - Cash paid for interest	$ 263,575	$ 293,968
Significant Noncash Transactions - Property and equipment purchases in accounts payable at year end	$ 46,876	$ -

Note 1 - Nature of Business

Near North Health Service Corporation (NNHSC) is a nonprofit corporation, as described in Section 501(c)(3) of the Internal Revenue Code (IRC), and is exempt from income taxes on related income pursuant to Section 501(a) of the IRC.

NNHSC is a federally qualified health center (FQHC) operating the following community-based primary healthcare facilities that serve the residents of the city of Chicago:

- Winfield Moody Health Center - Serving the residents of the Cabrini-Green, Near North, and West Town communities
- Komed Holman Health Center - Serving the residents of the mid-south side of Chicago, comprising the following communities: Kenwood/Oakland, Grand Boulevard, Hyde Park, and Chatham
- Louise Landau Health Center - Serving the residents of Southwest and Humboldt Park
- Cottage View Health Center - Serving the residents of Grand Boulevard
- Sunnyside Health Center - Serving the residents of the Uptown and Sunnyside community
- Denny Health Center - Serving the residents of the Lawson YMCA and the surrounding area
- Reavis Health Center - Serving the residents of Kenwood/Oakland, Hyde Park, Grand Boulevard, and Washington Park
- North Kostner Health Center - Serving the residents of Humboldt Park, North Lawndale, and Austin

On June 13, 2013, the NNHSC board of directors approved the formation of NNHSC Title Holding Corporation (the "Holding Company"). The Holding Company is a nonprofit organization incorporated in the state of Illinois with NNHSC as the sole member of the entity. The Holding Company was created to hold the building and debt related to the New Mark Tax Credit (NMTC) transaction that took place during the fiscal year ended June 30, 2014. See Note 5 for further discussion of the NMTC transaction.

Note 2 - Significant Accounting Policies

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of NNHSC and the Holding Company, collectively referred to as the "Organization." All material intercompany accounts and transactions have been eliminated in consolidation.

Basis of Presentation

The consolidated financial statements of the Organization have been prepared on the basis of generally accepted accounting principles (GAAP). The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect amounts reported in the financial statements. Actual results could differ from those estimates.

Classification of Net Assets

Net assets of the Organization are classified based on the presence or absence of donor-imposed restrictions.

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions or for which the donor-imposed restrictions have expired or been fulfilled. Net assets in this category may be expended for any purpose in performing the primary objectives of the Organization.

Note 2 - Significant Accounting Policies (Continued)

Board-designated net assets are net assets without donor restrictions designated by the board primarily for future operations. These designations are based on board actions, which can be altered or revoked at a future time by the board.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity. Net assets with donor restrictions as of June 30, 2019 and 2018 are restricted for the Pediatric Emergency Room Utilization Reduction program and to provide expanded access to behavioral and comprehensive health care.

Earnings, gains, and losses on donor-restricted net assets are classified as net assets without donor restrictions unless specifically restricted by the donor or by applicable state law.

Investments

Certificates of deposit have original maturities from three months to one year and are stated at cost.

The Organization’s investments are reported at fair value. Gain or loss on the sale of investments is computed using the specified recorded costs of each security. Investment income is recorded on the accrual basis and is reported in the consolidated statement of activities and changes in net assets based on the underlying donor restrictions or lack thereof. The Organization's investments are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to these risk factors, it is reasonably possible that changes in the value of investments will occur in the near term and will materially affect the amounts reported in the financial statements.

Assets Limited as to Use

The assets limited as to use represent cash restricted for the payment of interest on the Qualified Low-Income Community Investment (QLICI) loan described in Note 5.

Property and Equipment

Property and equipment are recorded at cost and are depreciated over their estimated useful lives using the straight-line method. Acquisitions of property and equipment in excess of $500 are capitalized. The cost of leasehold improvements is amortized over the useful lives or the applicable lease term, whichever is shorter. Costs of maintenance and repairs are charged to expense when incurred.

Interest Rate Swap

The Organization has entered into an interest rate swap agreement in order to convert a certain variable rate note payable to a fixed rate. This interest rate swap is recognized in the accompanying consolidated statement of financial position at fair value. Changes in the fair value of the interest rate swap are recognized in other income (expense). Realized gains and losses are recognized as a component of interest expense, and net realized (losses) gains totaling $(52,246) and $129,953 have been recognized in 2019 and 2018, respectively.

Equity Investment

The Organization has 25 percent ownership of Alliance of Chicago Community Health Services, L3C (the "Alliance"). The Alliance is a health-center controlled network that seeks to develop core service among its founding members that can then be more broadly shared to support other community health centers. Members of the Alliance are subject to an operating agreement that places limits on the transfer, sale, and pledging of units, including the right of first refusal by the Alliance and other members in the event a member wishes to sell or dispose of its units. Withdrawal from the Alliance requires written notice provided at least 90 days prior to the withdrawal date.

Note 2 - Significant Accounting Policies (Continued)

The Organization has the ability to exercise significant influence on the activities of the Alliance through membership on the Alliance's board. Therefore, the Organization accounts for its investment in the Alliance under the equity method of accounting, which increases the initial cost of the investment by the investor's share of earnings and reduces the carrying value by its share of losses and dividends received.

Notes Receivable

Notes receivable are reported at original issue amount plus accrued interest, less principal repaid. Interest is recognized according to terms of the specific notes disclosed in Note 5. An allowance for loan losses is determined based on a specific assessment of all notes that are delinquent or determined to be doubtful to be collected. Notes are considered delinquent if the repayment terms are not met. All amounts deemed to be uncollectible are charged against the allowance for loan losses in the period that determination is made. Management does not consider the notes receivable to be impaired.

Net Patient Service Revenue

The Organization recognizes patient service revenue associated with services provided to patients who have third-party payor coverage on the basis of contractual rates for the services rendered. For uninsured patients who do not qualify for charity care, the Organization recognizes revenue on the basis of its standard rates for services provided (or on the basis of discounted rates, if negotiated or provided by policy). On the basis of historical experience, a significant portion of the Organization's uninsured patients will be unable or unwilling to pay for the services provided. Thus, the Organization records a significant provision for bad debts related to uninsured patients in the period the services are provided. During 2019, the Organization recorded changes in estimates totaling approximately $1.4 million related to prior years, resulting in a reduction in patient service revenue in 2019.

Retroactively calculated adjustments arising under reimbursement agreements with third-party payors are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. Management believes that it is in compliance with all applicable laws and regulations. Final determination of compliance of such laws and regulations is subject to future government review and interpretation. Violations may result in significant regulatory action, including fines, penalties, and exclusions from the Medicare and Medicaid programs.

Note 2 - Significant Accounting Policies (Continued)

Patient Accounts Receivable

Accounts receivable for patients, insurance companies, and governmental agencies are based on gross charges. An allowance for contractual adjustments and interim payment advances is based on expected payment rates from payors based on current reimbursement methodologies. This amount also includes amounts received as interim payments against unpaid claims by certain payors. Accounts receivable are reduced by an allowance for doubtful accounts. In evaluating the collectibility of accounts receivable, the Organization analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts. For receivables associated with services provided to patients who have third-party coverage, the Organization analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely). For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Organization records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts in the period they are determined to be uncollectible.

The allowance for doubtful accounts is estimated by the Organization based on historical relationships with parties and other third-party payors. The Organization closely reviews all outstanding accounts receivable and follows up on all delinquent accounts. Delinquency status is determined based on the recent payment history of the patient or third-party payor. The allowance for uncollectible accounts, fee adjustments, and discounts at June 30, 2019 and 2018 was $10,821,264 and $8,585,973, respectively.

Charity Care

The Organization provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Organization does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. Charity care is determined based on established policies, using patient income and assets to determine payment ability. The amount reflects the cost of free or discounted health services, net of contributions and other revenue received, as direct assistance for the provision of charity care. The estimated cost of providing charity services is based on data derived from the Organization's cost accounting system. The Organization estimates that it provided $4,086,202 and $4,365,618 of services to indigent patients during 2019 and 2018, respectively.

Grant Revenue

Grant revenue received is considered an exchange transaction and is recognized as the expenses are incurred in compliance with the grantor's restrictions. Grant funding received in advance of conditions being met is recorded as deferred revenue. The Organization received 31 and 35 percent of its total 2019 and 2018 revenue, respectively, from one federal grant.

Note 2 - Significant Accounting Policies (Continued)

Contributions

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

Electronic Health Records Incentive Payments

The American Recovery and Reinvestment Act of 2009 (AARA) established funding in order to provide incentive payments to hospitals and physicians that implement the use of electronic health record (EHR) technology by 2014. The Organization may receive an incentive payment for up to four years, provided the Organization demonstrates meaningful use of certified EHR technology for the ERH reporting period. The revenue from the incentive payments is recognized ratably over the EHR reporting period when there is reasonable assurance that the Organization will comply with eligibility requirements during the EHR reporting period and an incentive payment will be received.

The Organization received funds under the electronic health record incentive program and recognized revenue for payments received during the period. For the years ended June 30, 2019 and 2018, the incentive payments were recognized as income within grant revenue in the amount of $85,000 and $463,250, respectively, in the accompanying consolidated statement of activities and changes in net assets.

Functional Allocation of Expenses

Costs of providing the program and support services have been reported on a functional basis in the consolidated statement of functional expenses. The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses required allocation on a reasonable basis that is consistently applied. Salaries and related expenses are allocated on the basis of time and effort. Expenses deemed to be indirect to employee work, such as professional services, insurance, and supplies, are considered to be management and general expenses. Other expenses utilized by all employees, such as occupancy, utilities, and training, are also allocated on the basis of time and effort. Costs have been allocated between the various programs and support services based on estimates, as determined by management. Although the methods of allocation used are considered appropriate, other methods could be used that would produce different amounts.

Note 2 - Significant Accounting Policies (Continued)

Adoption of New Accounting Pronouncement

As of July 1, 2019, the Organization adopted Accounting Standards Update No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, applied retrospectively to all years presented, except for liquidity and availability disclosures, as allowed by the standard. This standard requires net assets to be classified in two categories, net assets without donor restrictions and net assets with donor restrictions, rather than the three previous classifications. In addition, the underwater portion of donor-restricted endowments is now reported as net assets with donor restrictions. This standard also requires changes in the way certain information is aggregated and reported by the Organization, including disclosures of quantitative and qualitative information about the liquidity and availability of resources and the presentation of expenses by both functional and natural classification. The standard also clarifies the definition of management and general and prohibits certain expenses from being allocated out of management and general. As a result of the adoption of this standard, net assets of $337,345 previously recorded as temporarily restricted net assets have been reclassified as net assets with donor restrictions. Finally, disclosures about the liquidity and availability of resources have been included in Note 11. The disclosures about the liquidity and availability of resources are only presented for the current year, as allowed by the standard.

Upcoming Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which will supersede the current revenue recognition requirements in Topic 605, *Revenue Recognition*. The ASU is based on the principle that revenue is recognized to depict the transfer of 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 ASU also requires additional disclosure about the nature, amount, timing, and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. The new guidance will be effective for the Organization's year ending June 30, 2020. The ASU permits application of the new revenue recognition guidance using one of two retrospective application methods. The Organization plans to apply the standard using the modified retrospective method. The Organization's primary revenue sources are not expected to be significantly impacted by the standard, but a complete review of all revenue sources has not yet been completed.

The FASB issued ASU No. 2016-02, *Leases*, which will supersede the current lease requirements in ASC 840. The ASU requires lessees to recognize a right-to-use asset and related lease liability for all leases, with a limited exception for short-term leases. Leases will be classified as either finance or operating, with the classification affecting the pattern of expense recognition in the statement of operations. Currently, leases are classified as either capital or operating, with only capital leases recognized on the balance sheet. The reporting of lease-related expenses in the statements of operations and cash flows will be generally consistent with the current guidance. The new lease guidance will be effective for the Organization's year ending June 30, 2022 and will be applied using a modified retrospective transition method to either the beginning of the earliest period presented or the beginning of the year of adoption. The Organization is still evaluating which method it will apply. The new lease standard is expected to have a significant effect on the Organization’s financial statements as a result of the Organization's operating leases, as disclosed in Note 8, that will be reported on the consolidated statement of financial position at adoption. Upon adoption, the Organization will recognize a lease liability and corresponding right-to-use asset based on the present value of the minimum lease payments. The effects on the results of operations are not expected to be significant, as recognition and measurement of expenses and cash flows for leases will be substantially the same under the new standard.

Note 2 - Significant Accounting Policies (Continued)

In June 2018, the FASB issued ASU No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which provides enhanced guidance to assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal transactions) and (2) determining whether a contribution is conditional. The accounting guidance will result in more governmental contracts being accounted for as contributions and may delay revenue recognition for certain grants and contributions that no longer meet the definition of unconditional. The new guidance will be effective for the Organization's year ending June 30, 2020 and will be applied on a modified prospective basis. The Organization does not expect the standard to have a significant impact on the timing of revenue recognition for government grants and contracts but has not yet determined the impact on the timing of recognition of foundation and individual grants and contributions.

Subsequent Events

The financial statements and related disclosures include evaluation of events up through and including January 9, 2020, which is the date the financial statements were available to be issued.

Note 3 - Fair Value Measurements

Accounting standards require certain assets and liabilities be reported at fair value in the financial statements and provide a framework for establishing that fair value. The framework for determining fair value is based on a hierarchy that prioritizes the inputs and valuation techniques used to measure fair value.

Fair values determined by Level 1 inputs use quoted prices in active markets for identical assets or liabilities that the Organization has the ability to access.

Fair values determined by Level 2 inputs use other inputs that are observable, either directly or indirectly. These Level 2 inputs include quoted prices for similar assets and liabilities in active markets and other inputs, such as interest rates and yield curves, that are observable at commonly quoted intervals.

Level 3 inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset or liability.

In instances whereby inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Organization's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability.

The following tables present information about the Organization's financial instruments at June 30, 2019 and 2018 and the valuation techniques used by the Organization to determine those fair values:

	2019			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at June 30, 2019
Assets:				
Money market mutual funds	$ 2,905,449	$ -	$ -	$ 2,905,449
Mutual funds	5,450,212	-	-	5,450,212
Stocks	2,648	-	-	2,648
Total assets	$ 8,358,309	$ -	$ -	$ 8,358,309
Liabilities - Interest rate swap	$ -	$ 42,088	$ -	$ 42,088

Note 3 - Fair Value Measurements (Continued)

	2018			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at June 30, 2018
Assets:				
Money market funds	$ 2,845,585	$ -	$ -	$ 2,845,585
Mutual funds	2,014,922	-	-	2,014,922
Stocks	2,648	-	-	2,648
Interest rate swap	-	10,158	-	10,158
Total assets	$ 4,863,155	$ 10,158	$ -	$ 4,873,313

Investments

The Organization's policy is to recognize transfers in and transfers out of Level 1, 2, and 3 fair value classifications. Fair values for Level 1 investments are determined by reference to quoted market prices and other relevant information generated by market transactions. Fair values for Level 2 investments are determined by reference to quoted market transactions for assets similar to those held to support the underlying assets.

Interest Rate Swap

The fair value of the interest rate swap is estimated by a third party using a model that builds a yield curve from market data for actively traded securities at various times and maturities and takes into account current interest rates and the current creditworthiness of the respective counterparties. Such securities are classified within Level 2 of the valuation hierarchy.

Note 4 - Patient Service Revenue

A significant percentage of the Organization's net patient service revenue is received from Medicare, Medicaid, and other third-party payors. The Organization has agreements with third-party payors that provide for reimbursement at amounts different from established rates. A summary of the basis of reimbursement with these third-party payors is as follows:

- **Medicare** - The Organization's inpatient, acute-care, and rehabilitation services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system based on clinical, diagnostic, and other factors. Inpatient psychiatric and substance abuse services are reimbursed at cost subject to a per case limit. Outpatient and homecare services related to Medicare beneficiaries are reimbursed based on a prospectively determined amount per episode of care.

- **Medicaid** - Inpatient, acute-care services rendered to Medicaid program beneficiaries are also paid at prospectively determined rates per discharge. Capital costs relating to Medicaid patients are paid on a cost reimbursement method. Outpatient and physician services are reimbursed on an established fee-for-service methodology.

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

Note 4 - Patient Service Revenue (Continued)

Percentages of outstanding patient service revenue by payor source are as follows as of June 30:

	2019	2018
Medicaid	34.30 %	38.16 %
Medicare	30.46	29.63
Private insurance	19.34	17.23
Self-pay	15.90	14.98
Total	100.00 %	100.00 %

Note 5 - Notes Receivable

NNHSC and the Holding Company entered into an NMTC transaction during the fiscal year ended June 30, 2014. The NMTC program was created by the Community Renewal Tax Relief Act of 2000 and is regulated by Section 45D of the IRC. The program is designed to make investment capital available to businesses in qualifying low-income communities to create jobs and spur additional economic development. Privately managed investment institutions, or Community Development Entities (CDEs), make loans and capital investments in businesses in underserved areas.

NNHSC entered into a term loan with a financial institution totaling $5,000,000. See Note 7 for additional information regarding this loan.

NNHSC used the proceeds of the aforementioned term loan, along with $2,793,290 of its own funding, in order to make a $7,793,290 leveraged loan to Chase NMTC NNHSC Kestner/North Avenue Investment Fund, LLC (the "Investment Fund"). This loan is reflected as a note receivable on the consolidated statement of financial position and is secured by the Investment Fund's membership interest in CDF Suballocatee XVIII, LLC. The note receivable requires annual payments of interest only at approximately 1 percent commencing on December 1, 2013 through December 1, 2020. Annual payments of principal and interest will commence on December 1, 2020, with the final payment being due in December 2043. The principal balance on this note receivable, as of June 30, 2019 and 2018, is $7,793,290. Accrued interest on the note receivable is $38,577 as of June 30, 2019 and 2018 and is included in "other receivables" on the consolidated statement of financial position. Collection is fully expected, and, accordingly, no allowance has been provided for.

The Investment Fund used the leverage loan, along with $3,661,710 of tax credit equity provided by Chase Community Equity (CCE), to make an $11,455,000 qualified equity investment (QEI) in CDF Suballocatee XVIII, LLC (CDF CDE).

CDF CDE made a Qualified Low-Income Community Investment (QLICI) loan in the amount of $11,221,000 to the Holding Company. Repayment of the loan, including terms, is discussed in Note 7. The Holding Company made use of the funds for the construction of the North Kestner Health Center, while CDF CDE provided income tax credits to the Investment Fund.

As part of the NMTC transaction, NNHSC entered into an agreement with the Holding Company to lease the newly constructed building. The terms of the lease call for annual rental payments of $102,000 on December 1, 2015, and each due date thereafter through December 1, 2020, and $506,000 on December 1, 2021, and each due date thereafter through December 1, 2038. NNHSC is also responsible for maintenance and repair costs associated with the leased property.

Note 5 - Notes Receivable (Continued)

The taxpayers who invested in the QEI funds may claim a tax credit related to their investment over a seven-year credit period (the "Compliance Period"). Once the Compliance Period ends, there is a put and call agreement between the NMTC investors and the leverage lender (the Organization). The NMTC investors may put their ownership interests in the QEI funds to NNHSC for $1,000. If the NMTC investors do not exercise their put option, the Organization has the ability to call the ownership in the interest in the QEI funds for fair market value. It is anticipated that the NMTC investors will put their options, and the Organization would then own the QEI funds. The Organization would then forgive the Holding Company's QLICI loan, resulting in no outstanding debt at that point in time, and a benefit of equity from the NMTC program may be recognized.

Note 6 - Property and Equipment

Property and equipment are summarized as follows:

	2019	2018	Depreciable Life - Years
Land	$ 2,323,884	$ 2,323,884	-
Land improvements	1,130,789	1,130,789	10-15
Buildings	26,301,259	26,275,782	7-40
Transportation equipment	104,693	104,693	5
Furniture and fixtures	5,013,480	4,753,442	3-5
Leasehold improvements	1,490,602	1,490,602	5-20
Total cost	36,364,707	36,079,192	
Accumulated depreciation	18,262,001	17,065,740	
Net property and equipment	$ 18,102,706	$ 19,013,452	

Depreciation and amortization expense for 2019 and 2018 was $1,196,261 and $1,380,842, respectively.

Note 7 - Long-term Debt

In connection with the NMTC transaction detailed in Note 2, NNHSC entered into a term loan agreement with a bank for $5,000,000. The interest is at a rate equal to the London Interbank Offered Rate (LIBOR) daily floating plus 1.25 percent. Interest payments commenced on October 1, 2013 and are payable on the first day of each month through December 1, 2020. The note requires monthly principal payments of $16,667 beginning on October 1, 2014, through maturity on December 1, 2020, at which time the remaining balance outstanding is due. The balance outstanding on the bank note payable was $4,050,000 and $4,250,000 at June 30, 2019 and 2018, respectively.

NNHSC entered into an interest rate swap agreement in 2014 to hedge its interest rate exposure on the $5,000,000 bank note payable. The agreement, which expires on December 1, 2020, effectively fixes the interest rate on an initial notional value of $5,000,000 at 2.50 percent. The notional value declines over the term of the agreement consistent with the required principal payments on the loan. This agreement is considered to be a derivative financial instrument and is reported at its fair value as a liability of $42,088 and an asset of $10,158 in the consolidated statement of financial position at June 30, 2019 and 2018, respectively. The net change in the fair value of the agreement is reported as a component of the total change in net assets as another item in the consolidated statement of activities and changes in net assets for the years ended June 30, 2019 and 2018. The loan agreement is collateralized by substantially all land and buildings of NNHSC and provides for certain financial covenants.

Note 7 - Long-term Debt (Continued)

In connection with the NMTC transaction described in Note 5, the Holding Company entered into an $11,221,000 Qualified Low-Income Community Investment (QLICI) Loan, which is collateralized by substantially all assets of the Holding Company. The loan requires annual interest-only installments at 0.99 percent commencing on December 1, 2013, through December 1, 2020. Annual principal and interest payments will commence on December 1, 2020, with the final payment due on December 1, 2043, if the put and call agreements described Note 5 are not acted upon.

Future maturities of long-term debt are as follows:

Years Ending June 30	Amount
2020	$ 200,000
2021	4,214,563
2022	368,171
2023	371,816
2024	375,497
Thereafter	9,740,953
Total	$ 15,271,000

Note 8 - Leases

The Organization is obligated under operating leases primarily for office space, expiring at various dates through June 2024. The leases require the Organization to pay taxes, insurance, utilities, and maintenance costs.

Subsequent to year end, the Organization entered into an operating lease agreement for copiers and printers, which expires on June 30, 2024.

Future minimum annual commitments under these operating leases are as follows:

Years Ending June 30	Amount
2020	$ 363,297
2021	294,753
2022	223,238
2023	64,239
2024	53,111
Total	$ 998,638

Note 9 - Employee Benefit Plan

NNHSC maintains a defined contribution retirement plan, Employee Benefits Plan of Near North Health Service Corporation and Affiliate (the "Plan"). All employees over the age of 21 years are eligible to participate in the Plan after completing one year of service. Participants' benefits are fully vested after five years of participation or upon attainment of normal retirement age. The Organization is required to make annual contributions in the amount of 5 percent of participants' eligible compensation. For 2019 and 2018, the Organization contributed $412,114 and $370,088, respectively, to the Plan.

Note 10 - Commitments and Contingencies

The Organization has received federal grants for specific purposes that are subject to review and audit by the grantor agencies. Entitlements to these resources are generally conditional upon compliance with the terms and conditions of grant agreements and applicable federal regulations, including the expenditure of resources for allowable purposes. Any disallowance resulting from a review or audit by the grantor may become a liability of the Organization. Such amounts will be recognized in the period they become known.

According to federal regulations, the equipment items obtained through federal grants are subject to a lien by the federal government. As long as the Organization does not change its status from a "nonprofit" organization, or so long as the equipment is used for a purpose closely related to the project goals, the Organization is not required to reimburse the federal government. If the stated requirements are not met, the Organization would be obligated to the federal government in an amount equal to the fair value of the equipment.

The Organization maintains its medical malpractice coverage under the Federal Tort Claims Act (FTCA). FTCA provides malpractice coverage to eligible public health service-supported programs and applies to the Organization and its employees while providing services within the scope of employment included under grant-related activities. The attorney general, through the United States Department of Justice, has the responsibility for the deference of the individual and/or grantee for malpractice cases approved for FTCA coverage.

Note 11 - Liquidity and Availability of Resources

The following reflects the Organization's financial assets as of June 30, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of June 30:

	2019	2018
Cash	$ 8,776,906	$ 10,922,533
Certificates of deposit	647,585	976,452
Investments	8,358,309	4,863,155
Receivables - Net	4,538,118	4,193,644
Financial assets - At year end	22,320,918	20,955,784
Less those unavailable for general expenditures within one year due to:		
Contractual or donor-imposed restrictions	399,863	337,345
Board designations	2,524,915	2,524,915
Financial assets available to meet cash needs for general expenditures within one year	$ 19,396,140	$ 18,093,524

The Organization has a goal to maintain financial assets on hand to meet normal operating expenses. The Organization 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 cash in excess of daily requirements in various short-term investments, including certificates of deposit and short-term treasury instruments.

The Organization also realizes there could be unanticipated liquidity needs.

Additional Information

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Independent Auditor's Report on Additional Information

To the Board of Directors
Near North Health Service Corporation and Affiliate

We have audited the consolidated financial statements of Near North Health Service Corporation and Affiliate as of and for the year ended June 30, 2019 and have issued our report thereon dated January 9, 2020, which contained an unmodified opinion on those consolidated financial statements. Our audit was performed for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating statement of financial position as of June 30, 2019 and the consolidating statement of activities and changes in net assets for the year ended June 30, 2019 are presented for the purpose of additional analysis rather than to present the financial position, changes in net assets, and cash flows of the individual entities and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the 2019 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the 2019 consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

The consolidated financial statements of Near North Health Service Corporation and Affiliate as of June 30, 2018 were audited by CliftonLarsonAllen LLP, whose report dated November 27, 2018 expressed an unmodified opinion on those statements.

Plante & Moran, PLLC

January 9, 2020

Consolidating Statement of Financial Position

June 30, 2019

	Near North Health Service Corporation	NNHSC Title Holding Corporation	Eliminations	Total
Assets				
Current Assets				
Cash	$ 8,702,277	$ 74,629	$ -	$ 8,776,906
Certificates of deposit	647,585	-	-	647,585
Investments	10,019,793	-	(1,661,484)	8,358,309
Receivables:				
Patient account receivables - Net	3,848,812	-	-	3,848,812
Grants receivable - Net	170,327	-	-	170,327
Other receivables	518,979	-	-	518,979
Total receivables	4,538,118	-	-	4,538,118
Intercompany receivables	-	102,000	(102,000)	-
Assets limited as to use	-	60,413	-	60,413
Prepaid expenses	217,801	-	-	217,801
Total current assets	24,125,574	237,042	(1,763,484)	22,599,132
Notes Receivable	7,793,290	-	-	7,793,290
Other Assets - Investment in Alliance	1,429,550	-	-	1,429,550
Property and Equipment - Net	7,453,908	10,648,798	-	18,102,706
Total noncurrent assets	16,676,748	10,648,798	-	27,325,546
Total assets	**$ 40,802,322**	**$ 10,885,840**	**$ (1,763,484)**	**$ 49,924,678**
Liabilities and Net Assets (Deficiency in Net Assets)				
Current Liabilities				
Accounts payable	$ 437,102	$ -	$ -	$ 437,102
Accrued liabilities:				
Accrued vacation and compensation	753,142	-	-	753,142
Accrued expenses	53,738	55,544	-	109,282
Current portion of notes payable	200,000	-	-	200,000
Intercompany payables	102,000	-	(102,000)	-
Total current liabilities	1,545,982	55,544	(102,000)	1,499,526
Long-term Portion of Notes Payable	3,850,000	11,221,000	-	15,071,000
Interest Rate Swap	42,088	-	-	42,088
Total liabilities	5,438,070	11,276,544	(102,000)	16,612,614
Net Assets (Deficiency in Net Assets)				
Without donor restrictions	34,964,389	(390,704)	(1,661,484)	32,912,201
With donor restrictions	399,863	-	-	399,863
Total net assets (deficiency in net assets)	35,364,252	(390,704)	(1,661,484)	33,312,064
Total liabilities and net assets (deficiency in net assets)	**$ 40,802,322**	**$ 10,885,840**	**$ (1,763,484)**	**$ 49,924,678**

Consolidating Statement of Financial Position

June 30, 2018

	Near North Health Service Corporation	NNHSC Title Holding Corporation	Eliminations	Total
Assets				
Current Assets				
Cash	$ 10,871,816	$ 50,717	$ -	$ 10,922,533
Certificates of deposit	976,452	-	-	976,452
Investments	6,524,639	-	(1,661,484)	4,863,155
Receivables:				
Patient account receivables - Net	3,381,886	-	-	3,381,886
Grants receivable - Net	379,033	-	-	379,033
Other receivables	432,725	-	-	432,725
Total receivables	4,193,644	-	-	4,193,644
Intercompany receivables	-	102,000	(102,000)	-
Assets limited as to use	-	93,016	-	93,016
Prepaid expenses	152,036	-	-	152,036
Total current assets	22,718,587	245,733	(1,763,484)	21,200,836
Notes Receivable	7,793,290	-	-	7,793,290
Other Assets				
Investment in Alliance	1,194,572	-	-	1,194,572
Interest rate swap	10,158	-	-	10,158
Total other assets	1,204,730	-	-	1,204,730
Property and Equipment - Net	8,005,678	11,007,774	-	19,013,452
Total noncurrent assets	17,003,698	11,007,774	-	28,011,472
Total assets	**$ 39,722,285**	**$ 11,253,507**	**$ (1,763,484)**	**$ 49,212,308**
Liabilities and Net Assets (Deficiency in Net Assets)				
Current Liabilities				
Accounts payable	309,813	-	-	309,813
Accrued liabilities:				
Accrued vacation and compensation	754,418	-	-	754,418
Accrued expenses	55,158	55,544	-	110,702
Current portion of notes payable	200,000	-	-	200,000
Intercompany payables	102,000	-	(102,000)	-
Total current liabilities	1,421,389	55,544	(102,000)	1,374,933
Long-term Portion of Notes Payable	4,050,000	11,221,000	-	15,271,000
Total liabilities	5,471,389	11,276,544	(102,000)	16,645,933
Net Assets (Deficiency in Net Assets)				
Without donor restrictions	$ 33,913,548	$ (23,034)	$ (1,661,484)	$ 32,229,030
With donor restrictions	337,345	-	-	337,345
Total net assets (deficiency in net assets)	34,250,893	(23,034)	(1,661,484)	32,566,375
Total liabilities and net assets (deficiency in net assets)	**$ 39,722,282**	**$ 11,253,510**	**$ (1,763,484)**	**$ 49,212,308**

Consolidating Statement of Activities and Changes in Net Assets

Year Ended June 30, 2019

	Near North Health Service Corporation	NNHSC Title Holding Corporation	Eliminating Entries	Total
Changes in Net Assets without Donor Restrictions				
Revenue and gains without donor restrictions:				
Net patient service revenue:				
Net patient service revenue:	$ 10,536,965	$ -	$ -	$ 10,536,965
Provision for bad debts	(2,237,336)	-	-	(2,237,336)
Total net patient service revenue	8,299,629	-	-	8,299,629
Grants revenue	13,839,981	-	-	13,839,981
Contributions	137,190	-	-	137,190
United Way	25,060	-	-	25,060
Special events	30,345	-	-	30,345
Investment income - Net of fees	243,374	397	-	243,771
Other income	113,546	102,000	(102,000)	113,546
Net assets released from restrictions	387,482	-	-	387,482
Total revenue and gains without donor restrictions	23,076,607	102,397	(102,000)	23,077,004
Expenses	22,311,154	470,064	(102,000)	22,679,218
Increase (Decrease) in Net Assets without Donor Restrictions - Before nonoperating income (expenses)	765,453	(367,667)	-	397,786
Nonoperating Income (Expenses)				
Net unrealized gain on investments	102,653	-	-	102,653
Change in fair value of interest rate swap	(52,246)	-	-	(52,246)
Unrealized gain on equity investment	234,977	-	-	234,977
Total nonoperating income (expenses)	285,384	-	-	285,384
Increase (Decrease) in Net Assets without Donor Restrictions	1,050,837	(367,667)	-	683,170
Changes in Net Assets with Donor Restrictions				
Contributions	450,000	-	-	450,000
Net assets released from restrictions	(387,482)	-	-	(387,482)
Increase in Net Assets with Donor Restrictions	62,518	-	-	62,518
Increase (Decrease) in Net Assets	1,113,355	(367,667)	-	745,688
Net Assets (Deficiency in Net Assets) - Beginning of year	34,250,893	(23,034)	(1,661,484)	32,566,375
Net Assets (Deficiency in Net Assets) - End of year	**$ 35,364,248**	**$ (390,701)**	**$ (1,661,484)**	**$ 33,312,063**

Consolidating Statement of Activities and Changes in Net Assets

Year Ended June 30, 2018

	Near North Health Service Corporation	NNHSC Title Holding Corporation	Eliminating Entries	Total
Changes in Unrestricted Net Assets				
Revenue and gains without donor restrictions:				
Net patient service revenue:				
Net patient service revenue:	$ 7,942,741	$ -	$ -	$ 7,942,741
Provision for bad debts	(1,005,648)	-	-	(1,005,648)
Total net patient service revenue	6,937,093	-	-	6,937,093
Grants revenue	13,549,014	-	-	13,549,014
Contributions	132,552	-	-	132,552
United Way	25,000	-	-	25,000
Special events	31,819	-	-	31,819
Investment income - Net of fees	174,404	213	-	174,617
Other income	152,849	102,000	(102,000)	152,849
Net assets released from restrictions	255,602	-	-	255,602
Total revenue and gains without donor restrictions	21,258,333	102,213	(102,000)	21,258,546
Expenses	20,132,433	470,064	(102,000)	20,500,497
Increase (Decrease) in Net Assets without Donor Restrictions - Before nonoperating (expenses) income	1,125,900	(367,851)	-	758,049
Nonoperating (Expenses) Income				
Net unrealized loss on investments	(65,951)	-	-	(65,951)
Change in fair value of interest rate swap	129,953	-	-	129,953
Unrealized gain on equity investment	133,758	-	-	133,758
Total nonoperating (expenses) income	197,760	-	-	197,760
Increase (Decrease) in Net Assets without Donor Restrictions	1,323,660	(367,851)	-	955,809
Changes in Net Assets with Donor Restrictions				
Contributions	337,345	-	-	337,345
Net assets released from restrictions	(255,602)	-	-	(255,602)
Increase in Net Assets with Donor Restrictions	81,743	-	-	81,743
Increase (Decrease) in Net Assets	1,405,403	(367,851)	-	1,037,552
Net Assets (Deficiency in Net Assets) - Beginning of year	32,845,487	344,817	(1,661,484)	31,528,823
Net Assets (Deficiency in Net Assets) - End of year	**$ 34,250,890**	**$ (23,034)**	**$ (1,661,484)**	**$ 32,566,375**

Near North Health Service Corporation and Affiliate

Federal Awards Supplemental Information

June 30, 2019

Contents

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Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

Independent Auditor's Report

To the Board of Directors
Near North Health Service Corporation and Affiliate

We have audited the consolidated financial statements of Near North Health Service Corporation and Affiliate as of and for the year ended June 30, 2019 and have issued our report thereon dated January 9, 2020, which contained an unmodified opinion on those consolidated financial statements. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. We have not performed any procedures with respect to the audited consolidated financial statements subsequent to January 9, 2020.

The accompanying schedule of expenditures of federal awards is presented for the purpose of additional analysis, as required by the Uniform Guidance, and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Plante & Moran, PLLC

January 9, 2020

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

Independent Auditor's Report

To Management and the Board of Directors
Near North Health Service Corporation and Affiliate

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Near North Health Service Corporation and Affiliate (the "Organization"), which comprise the consolidated statement of financial position as of June 30, 2019 and the related consolidated statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements and have issued our report thereon dated January 9, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated 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 consolidated 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 Organization's consolidated 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, and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as Finding 2019-001, that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of consolidated 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.*

The Organization's Response to Finding

The Organization's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Organization's response was not subjected to the auditing procedures applied in the audit of the consolidated financial statements, and, accordingly, we express no opinion on it.

To Management and the Board of Directors
Near North Health Service Corporation and Affiliate

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

Plante & Moran, PLLC

January 9, 2020

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

Independent Auditor's Report

To the Board of Directors
Near North Health Service Corporation and Affiliate

Report on Compliance for Each Major Federal Program

We have audited Near North Health Service Corporation and Affiliate's (the "Organization") compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (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 auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Organization's major federal programs based on our audit of the types of compliance requirements referred to above.

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

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

Opinion on Each 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 the major federal program for the year ended June 30, 2019.

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 the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over compliance.

To the Board of Directors
Near North Health Service Corporation and Affiliate

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.

Plante & Moran, PLLC

January 9, 2020

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2019

Federal Agency/Pass-through Agency/Program Title	CFDA Number	Pass-through Entity Identifying Number	Provided to Subrecipients	Federal Expenditures
U.S. Department of Health and Human Services:				
Health Center Program Cluster:				
Community Health Centers Grant	93.224	H80CS00194	$ -	$ 7,548,172
Health Center Controlled Networks	93.527	H2QCS30242	756,591	756,591
Total Health Center Program Cluster			756,591	8,304,763
Healthy Start Initiative Program - Healthy Start Initiative - Healthy Start Family Center	93.926	H49MC27832	-	653,557
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease - HIV/AIDS Early Intervention Services Grant	93.918	H76HA00757	-	512,968
Coordinated Services and Access to Research for Women, Infants, Children and Youth - Ryan White Part D Grant	93.153	H12HA24814	-	191,466
Title XX Block Grant	93.667	FCSXU03165	-	165,796
Total U.S. Department of Health and Human Services			756,591	9,828,550
U.S. Department of Agriculture - Pass-through Program from Illinois Department of Human Services:				
Supplemental Nutrition Program for:				
Women, Infants, and Children	10.557	FCSWQ01072	-	1,138,290
Women, Infants, and Children - Breastfeeding Peer Counselor	10.557	FCSWQ01897	-	36,225
Women, Infants, and Children - Noncash	10.557	N/A	-	474,873
Total Supplemental Nutrition Program for Women, Infants, and Children			-	1,649,388
Farmer's Market - Admin	10.572	N/A	-	1,000
Total U.S. Department of Agriculture			-	1,650,388
Total expenditures of federal awards			**$ 756,591**	**$ 11,478,938**

See notes to schedule of expenditures of federal awards.

Notes to Schedule of Expenditures of Federal Awards

Year Ended June 30, 2019

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of Near North Health Service Corporation and Affiliate (the "Organization") under programs of the federal government for the year ended June 30, 2019. The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the "Uniform Guidance"). Because the Schedule presents only a selected portion of the operations of the Organization, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Organization.

Note 2 - Summary of Significant Accounting Policies

Expenditures reported in the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

The Organization has elected not to use the 10 percent *de minimis* indirect cost rate to recover indirect costs, as allowed under the Uniform Guidance.

Note 3 - Other Matters

There were no other amounts of federal insurance, loans, or loan guarantees outstanding as of and for the year ended June 30, 2019.

Note 4 - Noncash Assistance

The value of the noncash assistance received was determined in accordance with the provisions of the Uniform Guidance.

The schedule of expenditures of federal awards as of June 30, 2019 includes noncash assistance of $474,873 received under the Supplemental Nutrition Program for Women, Infants, and Children grant (CFDA 10.557).

Schedule of Findings and Questioned Costs

Year Ended June 30, 2019

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	Unmodified			
Internal control over financial reporting:				
• Material weakness(es) identified?		Yes	X	No
• Significant deficiency(ies) identified that are not considered to be material weaknesses?	X	Yes		None reported
Noncompliance material to financial statements noted?		Yes	X	None reported

Federal Awards

Internal control over major programs:				
• Material weakness(es) identified?		Yes	X	No
• Significant deficiency(ies) identified that are not considered to be material weaknesses?		Yes	X	None reported
Any audit findings disclosed that are required to be reported in accordance with Section 2 CFR 200.516(a)?		Yes	X	No

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster	Opinion
93.224 & 93.527	Health Center Program Cluster - Health Center Program	Unmodified
10.557	Supplemental Nutrition Program for Women, Infants, and Children	Unmodified

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 Audit Findings

Reference Number	Finding
2019-001	**Finding Type** - Significant deficiency **Criteria** - Cash received should be applied to individual patient receivable balances regularly and timely. **Condition** - Cash receipts are not applied in the billing system on a regular basis and are initially applied generally against the overall balance in the general ledger system. **Context** - The net patient accounts receivable balance is impacted by the control deficiency. **Cause** - Management is not following their approved policies for cash receipt application. **Effect** - Net patient accounts receivable balances in the billing system are not correct and management must use other manual information to estimate the collectibility of the patient receivables. **Recommendation** - We recommend that management implement and follow policies and procedures to appropriately and timely apply cash received to patient accounts receivable in their billing system. **Views of Responsible Officials and Planned Corrective Actions** - Management is going to implement procedures to ensure that cash receipts are timely applied to individual patient receivable balances in the billing system to coincide with the general ledger system.

Section III - Federal Program Audit Findings

None

NearNorth
HEALTH SERVICE CORPORATION

Berneice Mills-Thomas
Executive Director

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phone: 773-878-8098

Nutrition Centers
Chicago Nutrition Education Center
Humboldt Park WIC
Norwegian American WIC

Near North Health Service Corporation
June 30, 2019
Summary Schedule of Prior Audit Findings

Prior Year Finding Number:
None

Fiscal Year in Which the Finding Initially Occurred:
N/A

Federal Program, CFDA Number and Name:
N/A

Original Finding Description:
N/A

Status/Partial Corrective Action (as applicable):
N/A

Planned Corrective Action:
N/A

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Near North Health Service Corporation
June 30, 2019
Corrective Action Plan

Finding Number: 2019-001

Condition: Cash receipts are not applied in the billing system on a regular basis and are initially applied generally against the overall balance in the general ledger system

Planned Corrective Action: Management is going to implement procedures to ensure that cash receipts are timely applied to individual patient receivable balances in the billing system to coincide with the general ledger system.

Contact person responsible for corrective action:
Cush Mvududu - Controller

Anticipated Completion Date: June 30, 2020