

ChesPenn Health Services, Inc.

Financial Statements and
Supplementary Information

June 30, 2019 and 2018

ChesPenn Health Services, Inc.

Table of Contents
June 30, 2019 and 2018

	<u>Page</u>
Independent Auditors' Report	1
Financial Statements	
Balance Sheets	3
Statements of Operations	4
Statements of Changes In Net Assets	5
Statements of Cash Flows	6
Notes to Financial Statements	7
Other Financial Information and Audit Reports and Schedules	
Schedule of Expenditures of Federal Awards	19
Notes to Schedule of Expenditures of Federal Awards	20
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 <i>Government Auditing Standards</i>	21
Independent Auditors' Report on Compliance for the Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance	23
Schedule of Findings and Questioned Costs	25
Summary Schedule of Prior Audit Findings	27

Independent Auditors' Report

To the Board of Directors of
ChesPenn Health Services, Inc.

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 Controller 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 auditors' 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 ChesPenn Health Services, Inc. as of June 30, 2019 and 2018, and the results of its operations, changes in net assets, and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Other Supplementary 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 (page 19) 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 18, 2019, on our consideration of ChesPenn Health Services, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 ChesPenn Health Services, Inc.'s internal control over financial reporting and compliance.

Baker Tilly Virchow Krause, LLP

Iselin, New Jersey
December 18, 2019

ChesPenn Health Services, Inc.

Balance Sheets

June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>		<u>2019</u>	<u>2018</u>
Assets			Liabilities and Net Assets		
Current Assets			Current Liabilities		
Cash and cash equivalents	\$ 3,662,884	\$ 3,355,339	Current maturities of long-term debt	\$ 13,867	\$ 5,542
Receivables:			Accounts payable, trade	489,144	201,741
Patients, less allowance for doubtful			Accrued expenses	1,026,374	999,121
accounts of \$1,242,000 in 2019			Deferred revenue	83,333	83,333
and \$1,147,000 in 2018	506,882	647,838	Estimated third-party payor settlements	<u>252,656</u>	<u>365,352</u>
Grants	163,835	157,611			
Prepaid expenses and other current assets	<u>81,722</u>	<u>67,599</u>	Total current liabilities	1,865,374	1,655,089
Total current assets	4,415,323	4,228,387	Long-Term Debt	480,591	494,458
Property and Equipment, Net	1,241,225	1,439,589	Total liabilities	<u>2,345,965</u>	<u>2,149,547</u>
Assets Whose Use is Limited	2,266,708	2,204,279	Net Assets		
			Without donor restriction	<u>5,577,291</u>	<u>5,722,708</u>
Total assets	<u>\$ 7,923,256</u>	<u>\$ 7,872,255</u>	Total liabilities and net assets	<u>\$ 7,923,256</u>	<u>\$ 7,872,255</u>

See notes to financial statements

ChesPenn Health Services, Inc.

Statements of Operations

Years Ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Unrestricted Revenues and Other Support		
Net patient service revenues	\$ 7,849,419	\$ 7,396,034
Grant revenue	2,802,477	2,870,510
Premium revenues	793,056	837,287
Net assets released from restrictions used for operations	432,751	522,150
Other revenues	<u>319,512</u>	<u>328,820</u>
Total unrestricted revenues and other support	<u>12,197,215</u>	<u>11,954,801</u>
Expenses		
Salaries and wages	5,598,964	5,246,098
Supplies and expenses	4,819,639	4,148,559
Employee benefits	1,142,173	1,178,588
Depreciation	198,364	206,272
Leases	476,591	476,907
Provision for bad debts	150,019	143,318
Insurance	<u>41,357</u>	<u>30,251</u>
Total expenses	<u>12,427,107</u>	<u>11,429,993</u>
Operating (loss) income	(229,892)	524,808
Investment Income	<u>84,475</u>	<u>21,900</u>
Revenues (less than) in excess of expenses and (decrease) increase in net assets without donor restrictions	<u>\$ (145,417)</u>	<u>\$ 546,708</u>

See notes to financial statements

ChesPenn Health Services, Inc.

Statements of Changes in Net Assets

Years Ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Net Assets Without Donor Restrictions		
Revenues (less than) in excess of expenses and (decrease) increase in net assets without donor restrictions	\$ (145,417)	\$ 546,708
Net Assets With Donor Restrictions		
Contributions	432,751	522,150
Net assets released from restrictions for operations	<u>(432,751)</u>	<u>(522,150)</u>
Change in net assets with donor restrictions	<u>-</u>	<u>-</u>
(Decrease) increase in net assets	(145,417)	546,708
Net Assets, Beginning	<u>5,722,708</u>	<u>5,176,000</u>
Net Assets, Ending	<u>\$ 5,577,291</u>	<u>\$ 5,722,708</u>

See notes to financial statements

ChesPenn Health Services, Inc.

Statements of Cash Flows

Years Ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Cash Flows from Operating Activities		
(Decrease) increase in net assets	\$ (145,417)	\$ 546,708
Adjustments to reconcile (decrease) increase in net assets to net cash provided by (used in) operating activities:		
Depreciation	198,364	206,272
Provision for bad debts	150,019	143,318
Net realized and unrealized gains on investments	(12,557)	-
Changes in assets and liabilities:		
Receivables	(15,287)	(87,509)
Estimated third-party payor settlements	(112,696)	(496,809)
Prepaid expenses and other current assets	(14,123)	47,461
Accounts payable	287,403	(760,350)
Accrued expenses	27,253	110,264
Deferred revenue	-	(10,417)
	<u>362,959</u>	<u>(301,062)</u>
Net cash provided by (used in) operating activities		
Cash Flows from Investing Activities		
Net purchases of assets whose use is limited	(49,872)	(1,015,052)
Purchases of property and equipment	-	(479,096)
	<u>(49,872)</u>	<u>(1,494,148)</u>
Net cash used in investing activities		
Cash Flows from Financing Activities		
(Repayment of) proceeds from issuance of long-term debt	(5,542)	500,000
	<u>(5,542)</u>	<u>500,000</u>
Net increase (decrease) in cash and cash equivalents	307,545	(1,295,210)
Cash and Cash Equivalents, Beginning	<u>3,355,339</u>	<u>4,650,549</u>
Cash and Cash Equivalents, Ending	<u>\$ 3,662,884</u>	<u>\$ 3,355,339</u>

See notes to financial statements

ChesPenn Health Services, Inc.

Notes to Financial Statements

June 30, 2019 and 2018

1. Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

ChesPenn Health Services, Inc. (the "Corporation") is a not-for-profit organization which operates a comprehensive health service program. The Corporation is principally funded by grants from the United States Department of Health and Human Services ("HHS"). The Corporation operates one location offering medical, dental, pharmaceutical and behavioral health services in Chester, Pennsylvania, one location offering medical, dental, pharmaceutical and behavioral health services in Coatesville, Pennsylvania, and one location offering medical and behavioral health services in Upper Darby, Pennsylvania.

The Corporation evaluated subsequent events for recognition or disclosure through December 18, 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.

Cash and Cash Equivalents

Cash and cash equivalents include investments in highly liquid financial instruments purchased with original maturities of three months or less, excluding assets whose use is limited.

Accounts Receivable

Accounts receivable, patients are reported at net realizable value. Accounts are written off when they are determined to be uncollectible based upon management's assessment of individual accounts. The allowance for doubtful accounts is estimated based upon a periodic review of the accounts receivable aging, payor classifications, and application of historical write-off percentages.

Assets Whose Use Is Limited

Assets whose use is limited include designated assets set aside by the Corporation's Board of Directors to cover the replacement cost of specified capital assets and other program services.

Investment income is included in the determination of revenues (less than) in excess of expenses and (decrease) increase in net assets without donor restrictions unless the income or loss is restricted by donor or law and is reported net of investment expenses. Unrealized gains and losses on assets whose use is limited are also included in the determination of revenues (less than) in excess of expenses. Interest income is measured as earned on the accrual basis.

Property and Equipment

Property and equipment are recorded at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets.

ChesPenn Health Services, Inc.

Notes to Financial Statements

June 30, 2019 and 2018

Net Assets

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

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

Net Assets With Donor Restrictions - net assets subject to donor imposed restrictions. Donor imposed restricted are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. When a restriction expires, that is when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions.

Performance Indicator

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

Net Patient Service Revenues

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

Charity Care

The Corporation 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 Corporation does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenues. The Corporation provided charity care, based on the amount of costs incurred, of approximately \$1,209,000 in 2019 and \$1,131,000 in 2018.

Premium Revenues

The Corporation has agreements with various Health Maintenance Organizations ("HMOs") to provide medical services to subscribing participants. Under these agreements, the Corporation receives monthly capitation payments based on the number of each HMO's participants, regardless of services actually performed by the Corporation. In addition, certain HMOs make fee-for-service payments to the Corporation for certain covered services based upon discounted fee schedules.

ChesPenn Health Services, Inc.

Notes to Financial Statements

June 30, 2019 and 2018

Donor Restricted Gifts

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

Income Taxes

The Corporation is a not-for-profit entity as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal income taxes on its exempt income under Section 501(a) of the Internal Revenue Code. The Corporation is also exempt from state and local income taxes under similar statutes. Accordingly, no provision for income taxes has been recorded in the accompanying financial statements.

The Corporation accounts for uncertainty in income taxes using 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 is met. Management determined there were no tax uncertainties that met the recognition threshold in 2019 and 2018.

Recent Accounting Pronouncements

Presentation of Financial Statements of Not-for-Profit Entities

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

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

- The unrestricted net asset class has been renamed Net Assets Without Donor Restrictions;
- The temporarily restricted net asset class has been renamed Net Assets With Donor Restrictions;
- The financial statements include a disclosure about liquidity and availability of resources as of June 30, 2019 (Note 15); and
- The functional expense disclosure for 2019 includes expenses reported both by nature and function (Note 16).

Revenue from Contracts with Customers

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

Restricted Cash

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

Contributions

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

Leases

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. ASU No. 2016-02 was issued to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. Under the provisions of ASU No. 2016-02, a lessee is required to recognize a right-to-use asset and lease liability, initially measured at the present value of the lease payments, in the balance sheet. In addition, lessees are required to provide qualitative and quantitative disclosures that enable users to understand more about the nature of the Corporation's leasing activities. The Corporation will be required to retrospectively adopt the guidance in ASU No. 2016-02 for years beginning after December 15, 2020. The Corporation has not yet determined the impact of adoption of ASU No. 2016-02 on its financial statements.

ChesPenn Health Services, Inc.

Notes to Financial Statements

June 30, 2019 and 2018

2. Significant Group Concentrations of Credit Risk

The Corporation grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor arrangements primarily with Medicare, Medical Assistance, Blue Shield, and various commercial insurance companies. The mix of net patient service revenues from third-party payors for the years ended June 30 was as follows:

	<u>2019</u>	<u>2018</u>
Medicaid	85 %	85 %
Medicare	6	3
Commercial	5	7
Self-pay	4	5
	<u>100 %</u>	<u>100 %</u>

The Corporation maintains operating cash and cash equivalents with local financial institutions. Accounts in each financial institution are insured by the Federal Deposit Insurance Corporation to \$250,000.

3. Net Patient Service Revenues

The Corporation has agreements with third-party payors that provide for payments to the Corporation at amounts different from its established rates.

Patient services rendered to Medical Assistance beneficiaries are paid at prospectively determined rates. The Corporation also has entered into payment agreements with certain commercial insurance carriers and health maintenance organizations. The basis for payment to the Corporation under these agreements includes discounts from established charges and capitation payments. Capitation revenue was approximately \$106,000 and \$126,000 for the years ended June 30, 2019 and 2018, respectively.

Revenue received under agreements with third-party payors is subject to audit and retroactive adjustment. Net patient services revenues increased approximately \$0 in 2019 and \$208,000 in 2018 due to favorable adjustments and/or settlements of prior year cost reports.

4. Grant Revenue

The Corporation is principally funded by grants from HHS. HHS and other grant revenue for 2019 and 2018 consisted of the following:

	<u>2019</u>	<u>2018</u>
Community Health Centers - Section 330	\$ 2,371,327	\$ 2,376,908
Project Grants for Health Services to the Homeless	166,609	159,534
HIV Care Formula Grants	61,211	50,572
	<u>2,599,147</u>	<u>2,587,014</u>
Total HHS grant revenue	2,599,147	2,587,014
Other	203,330	283,496
	<u>2,802,477</u>	<u>2,870,510</u>
Total HHS and other grant revenue	\$ 2,802,477	\$ 2,870,510

ChesPenn Health Services, Inc.

Notes to Financial Statements

June 30, 2019 and 2018

Grants receivable at June 30, 2019 and 2018 consisted of the following:

	<u>2019</u>	<u>2018</u>
Project Grants for Health Services to the Homeless	\$ 62,953	\$ 59,022
Other	100,882	98,589
Total grants receivable	<u>\$ 163,835</u>	<u>\$ 157,611</u>

Federal and State Awards

The Corporation participates in both state and federally assisted grant programs. These programs are subject to program compliance audits by the grantors or their representatives. The Corporation is potentially liable for any expenditures which may be disallowed pursuant to the terms of these grant programs. Management is not aware of any material items of noncompliance which would result in the disallowance of program expenditures.

5. Assets Whose Use Is Limited

The composition of assets whose use is limited at June 30, 2019 and 2018 is set forth in the following table:

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 814,857	\$ 595,606
Certificates of deposit	936,761	1,608,673
Equity mutual funds	154,689	-
Fixed income mutual funds	360,401	-
Total	<u>\$ 2,266,708</u>	<u>\$ 2,204,279</u>

Investment income consists of the following for the years ended June 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Interest and dividend income	\$ 71,918	\$ 21,900
Net change in unrealized gains and losses on assets whose use is limited	12,557	-
Total	<u>\$ 84,475</u>	<u>\$ 21,900</u>

ChesPenn Health Services, Inc.

Notes to Financial Statements

June 30, 2019 and 2018

6. Fair Value Measurements

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

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

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

Level 3 - Fair value is 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 fair value of the Corporation's assets at June 30, 2019 and 2018, are as follows:

	2019			
	Fair Value	Level 1	Level 2	Level 3
Reported at Fair Value:				
Assets whose use is limited,				
Cash and cash equivalents	\$ 814,857	\$ 814,857	\$ -	\$ -
Certificates of deposit	936,761	-	936,761	-
Equity mutual funds	154,689	154,689	-	-
Fixed income mutual funds	360,401	360,401	-	-
Total	<u>\$ 2,266,708</u>	<u>\$ 1,329,947</u>	<u>\$ 936,761</u>	<u>\$ -</u>
Disclosed at Fair Value:				
Cash and cash equivalents	<u>\$ 3,662,884</u>	<u>\$ 3,662,884</u>	<u>\$ -</u>	<u>\$ -</u>
Long-term debt	<u>\$ 494,458</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 494,458</u>

ChesPenn Health Services, Inc.

Notes to Financial Statements
June 30, 2019 and 2018

	2018			
	Fair Value	Level 1	Level 2	Level 3
Reported at Fair Value:				
Assets whose use is limited,				
Cash and cash equivalents	\$ 595,606	\$ 595,606	\$ -	\$ -
Certificates of deposit	1,608,673	-	1,608,673	-
Total	<u>\$ 2,204,279</u>	<u>\$ 595,606</u>	<u>\$ 1,608,673</u>	<u>\$ -</u>
Disclosed at Fair Value:				
Cash and cash equivalents	<u>\$ 3,355,339</u>	<u>\$ 3,355,339</u>	<u>\$ -</u>	<u>\$ -</u>
Long-term debt	<u>\$ 500,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 500,000</u>

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

Cash and cash equivalents include certain investments in highly liquid debt instruments with original maturities of three months or less at date of purchase.

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

Equity and fixed income mutual funds include investments that are valued at fair value based on quoted market prices in active markets.

Long-term debt is reported at carrying value, which approximates fair value.

7. Property and Equipment

Property and equipment and accumulated depreciation at June 30, 2019 and 2018 consisted of the following:

	2019	2018
Land	\$ 100,838	\$ 100,838
Buildings	3,153,067	3,153,067
Leasehold improvements	349,794	349,794
Equipment	1,341,554	1,341,554
Vehicles	48,472	48,472
Total	<u>4,993,725</u>	<u>4,993,725</u>
Less accumulated depreciation	<u>3,752,500</u>	<u>3,554,136</u>
Property and equipment, net	<u>\$ 1,241,225</u>	<u>\$ 1,439,589</u>

ChesPenn Health Services, Inc.

Notes to Financial Statements

June 30, 2019 and 2018

8. Long-Term Debt

Long-term debt at June 30, 2019 and 2018 consists of the following:

	<u>2019</u>	<u>2018</u>
Mortgage note payable to Reinvestment Fund, Inc., payable monthly in 47 equal installments of \$3,548 beginning February 2019 through December 2022 consisting of principal and interest bearing interest at a rate of 5.88%, with a final payment due in January, 2023	\$ 494,458	\$ 500,000
Less current portion due within one year	<u>13,867</u>	<u>5,542</u>
Long-term portion	<u>\$ 480,591</u>	<u>\$ 494,458</u>

Future principal debt payments at June 30, 2019 are as follows:

2020	\$ 13,867
2021	14,705
2022	15,593
2023	<u>450,293</u>
Total	<u>\$ 494,458</u>

On December 15, 2017, the Corporation entered into a Loan Agreement to finance the cost of renovations at one of its locations. The note payable is secured by a first lien on, and security interest in, substantially all real estate, improvements, fixtures, and equipment at the property.

9. Demand Note Payable, Bank

The Corporation has a line of credit agreement with National Penn Bank for \$300,000. Amounts advanced under this line of credit are due on demand and interest is charged at the Wall Street Journal prime rate plus 0.5 percent, with a minimum rate of 5 percent. There were no borrowings at June 30, 2019 and 2018, and this line of credit expires on February 28, 2020.

10. Accrued Expenses

Accrued expenses at June 30, 2019 and 2018 consisted of the following:

	<u>2019</u>	<u>2018</u>
Pension	\$ 46,763	\$ 99,517
Vacation pay	373,453	368,591
Salaries and wages	251,174	219,327
Rent	110,505	126,352
Pharmacy purchases and dispensing fees	27,984	49,194
Other	<u>216,495</u>	<u>136,140</u>
Total	<u>\$ 1,026,374</u>	<u>\$ 999,121</u>

ChesPenn Health Services, Inc.

Notes to Financial Statements

June 30, 2019 and 2018

11. Pension Plan

The Corporation has a 401(k) defined contribution profit sharing plan (the "plan") in which employees contribute to the plan and an employer match is provided. The plan covers substantially all employees. Pension expense was \$232,241 in 2019 and \$275,986 in 2018.

12. Transactions with Crozer-Keystone Health System

The Corporation has an electronic health record (EHR) services agreement with Crozer-Keystone Health System ("CKHS"). Expenses related to the EHR services contract were \$109,650 in 2019 and \$109,850 in 2018. Amounts due to CKHS for such services were \$63,750 and \$22,950 for the years ended June 30, 2019 and 2018, respectively, and are included in accounts payable or accrued expenses in the accompanying balance sheets.

The Corporation entered into a professional services agreement with Health Access Network ("HAN") during 2011. HAN is CKHS' physician network group. Under the terms of this agreement, HAN provides professional family medicine services at the Corporation's Upper Darby facility. Expenses related to this agreement totaled \$1,306,546 in 2019 and \$1,002,017 in 2018.

13. Lease Commitments

The Corporation leases facilities and equipment under the terms of noncancellable leases.

The schedule of future minimum lease payments under operating leases as of June 30, 2019 is as follows:

Years ending June 30:	
2020	\$ 403,585
2021	423,427
2022	378,063
2023	<u>200,079</u>
Total	<u>\$ 1,405,154</u>

Lease expense was \$476,591 in 2019 and \$476,907 in 2018.

14. Contingencies

Medical and Dental Malpractice Claims Coverage

Effective June 23, 1996, the Corporation was deemed to be an employee of the federal government under Section 224(h) of the Public Health Service ("PHS") Act, 42, U.S.C. 233(h) as amended by the Federally Supported Health Centers Assistance Act of 1995. Section 224 of the PHS Act provides malpractice insurance coverage for all activities within the scope of its PHS grant under the Federal Tort Claims Act. This coverage is provided at no charge to the Corporation and there are no per occurrence or aggregate limits.

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

ChesPenn Health Services, Inc.

Notes to Financial Statements

June 30, 2019 and 2018

Healthcare Industry

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

15. Liquidity and Availability

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

	<u>2019</u>
Cash and cash equivalents	\$ 3,662,884
Accounts receivable, net	506,882
Assets whose use is limited	<u>2,266,708</u>
Total	<u>\$ 6,436,474</u>

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

As part of the Corporation'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 Corporation invests excess cash in investments.

Additionally, the Corporation maintains a \$300,000 line of credit, as discussed in more detail in Note 9. As of June 30, 2019, \$300,000 was available on the Corporation's line of credit.

ChesPenn Health Services, Inc.

Notes to Financial Statements

June 30, 2019 and 2018

16. Functional Expenses

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

	Healthcare Services	General and Administrative	Total
Salaries and wages	\$ 4,195,642	\$ 1,403,322	\$ 5,598,964
Supplies and expenses	885,504	382,100	1,267,604
Employee benefits	859,395	282,778	1,142,173
Depreciation	195,889	2,475	198,364
Leases	343,107	133,484	476,591
Provision for bad debts	150,019	-	150,019
Insurance	23,462	17,895	41,357
Contractors	1,995,310	268,602	2,263,912
Data Processing	615	441,846	442,461
Pharmacy	845,662	-	845,662
Total	<u>\$ 9,494,605</u>	<u>\$ 2,932,502</u>	<u>\$ 12,427,107</u>

In 2018, the Corporation incurred approximately \$9,033,000 of expenses related to healthcare services and approximately \$2,397,000 related to general and administrative.

ChesPenn Health Services, Inc.Schedule of Expenditures of Federal Awards
Year Ended June 30, 2019

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Other Identifying Number	Grant Period	Amount Passed-Through to Subrecipients	Federal Expenditures
United States Department of Health and Human Services					
Health Center Program Cluster:					
Direct programs,					
Consolidated Health Centers					
Community Health Centers, Section 330	93.224	H80CS00738	02/01/17 - 01/31/18	\$ -	\$ 52,409
Community Health Centers, Section 330	93.224	H80CS00738	02/01/18 - 01/31/19	-	1,356,036
Community Health Centers, Section 330	93.224	H80CS00738	02/01/19 - 01/31/20	-	<u>962,882</u>
Total direct programs					<u>2,371,327</u>
Passed-through Philadelphia Health Management Corporation,					
Consolidated Health Centers					
Health Care for the Homeless	93.224	H80CS00016	01/01/18 - 12/31/18	-	70,581
Health Care for the Homeless	93.224	H80CS00016	01/01/19 - 12/31/19	-	<u>94,144</u>
Total passed-through Philadelphia Health Management Corporation					<u>164,725</u>
Total Health Center Program Cluster and total for CFDA 93.224					<u>2,536,052</u>
Passed-through Access Matters,					
Family Planning Services	93.217	6FPHPA036277-02	07/01/17 - 08/31/18	-	13,950
Family Planning Services	93.217	6FPHPA006317	09/01/18 - 03/31/19	-	50,167
Family Planning Services	93.217	1FPHPA006433	04/01/19 - 03/31/20	-	<u>19,910</u>
Total passed-through Access Matters					<u>84,027</u>
Total United States Department of Health and Human Services					<u>2,620,079</u>
Philadelphia Department of Public Health					
AIDS Activities Coordinating Office					
Passed-through The AIDS Activities Coordination Office,					
HIV Emergency Relief Project					
Ryan White Part A	93.914	1320730-03	03/01/18 - 02/28/19	-	33,279
Ryan White Part A	93.914	1320730-03	03/01/19 - 02/29/20	-	<u>16,664</u>
Total passed-through The AIDS Activities Coordination Office					<u>49,943</u>
Total expenditures of federal awards					<u>\$ 2,670,022</u>

See notes to expenditures of federal awards

ChesPenn Health Services, Inc.

Notes to Schedule of Expenditures of Federal Awards

June 30, 2019

1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the grant activity of ChesPenn Health Services, Inc. (the "Corporation") and is presented on an accrual basis of accounting. 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* ("*Uniform Guidance*"). Because the Schedule presents only a selected portion of the operations of the Corporation it is not intended to and does not present the financial position, changes in net assets or cash flows of the Corporation.

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

2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowed or are limited as to reimbursement. Pass-through entity identifying numbers are presented when available.

3. Indirect Cost Rate

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

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

To the Board of Directors of
ChesPenn Health Services, Inc.

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 ChesPenn Health Services, Inc. (the "Corporation"), which comprise the balance sheet as of June 30, 2019, and the related statements of operations and changes in net assets and cash flows for the year ended June 30, 2019, and have issued our report thereon dated December 18, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Corporation'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Corporation'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 Corporation'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 Corporation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Baker Tilly Virchow Krause, LLP

Iselin, New Jersey
December 18, 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
ChesPenn Health Services, Inc.

Report on Compliance for the Major Federal Program

We have audited ChesPenn Health Services, Inc.'s (the "Corporation's") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Corporation's major federal program for the year ended June 30, 2019. The Corporation's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

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

Opinion on the Major Federal Program

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

Report on Internal Control Over Compliance

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

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

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

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

Baker Tilly Virchow Krause, LLP

Iselin, New Jersey
December 18, 2019

ChesPenn Health Services, Inc.

Schedule of Findings and Questioned Costs
Year Ended June 30, 2019

Section II - Financial Statement Findings

None.

Section III - Federal Award Findings and Questioned Costs

None.

ChesPenn Health Services, Inc.

Summary Schedule of Prior Audit Findings
Year Ended June 30, 2019

Section IV - Summary Schedule of Prior Year Audit Findings

None.