Equitas Health, Inc. and Subsidiaries

Independent Auditor's Reports and
Consolidated Financial Statements

June 30, 2019 and 2018

BKD
CPAs & Advisors

Equitas Health, Inc. and Subsidiaries
June 30, 2019 and 2018

Contents

Independent Auditor's Report **1**

Consolidated Financial Statements

Balance Sheets 3

Statements of Operations and Changes in Net Assets 4

Statements of Cash Flows 5

Notes to Financial Statements 6

Supplementary Information

Schedule of Expenditures of Federal Awards 19

Notes to the Schedule of Expenditures of Federal Awards 20

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 **21**

Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance – Independent Auditor's Report **23**

Schedule of Findings and Questioned Costs **25**

Summary Schedule of Prior Audit Findings **28**

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Independent Auditor's Report

Board of Directors
Equitas Health, Inc. and Subsidiaries
Columbus, Ohio

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Equitas Health, Inc. and Subsidiaries (Organization), which comprise the consolidated balance sheet as of June 30, 2019, and the related consolidated statements of operations and changes in net assets, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our 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 consolidated financial position of Equitas Health, Inc. and Subsidiaries as of June 30, 2019, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Prior Year Audited by Other Auditors

The 2018 consolidated financial statements were audited by other auditors, and their report thereon, dated December 12, 2018, expressed an unmodified opinion.

Emphasis of Matter

As described in *Note 15* to the consolidated financial statements, in 2019, the Organization adopted ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The schedule of expenditures of federal awards as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we also have issued our report dated December 19, 2019 on our consideration of Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

BKD, LLP

Cincinnati, Ohio
December 19, 2019

Equitas Health, Inc. and Subsidiaries

Consolidated Balance Sheets

June 30, 2019 and 2018

Assets

	2019	2018
Current Assets		
Cash and cash equivalents	$ 11,797,661	$ 9,622,840
Receivables		
Patients	597,673	353,916
Pharmacy	5,118,412	4,058,065
Grants	3,378,541	2,912,025
Contributions receivable	292,747	384,737
Inventories	2,004,803	1,741,495
Prepaid expenses and other	806,392	553,906
Total current assets	23,996,229	19,626,984
Property, Plant and Equipment, at Cost		
Building and leasehold improvements	5,242,677	1,704,551
Furniture and equipment	727,738	620,861
Computers and software	2,109,554	1,633,240
Construction in progress	387,780	166,671
	8,467,749	4,125,323
Less accumulated depreciation	(2,216,459)	(1,598,900)
	6,251,290	2,526,423
Total assets	$ 30,247,519	$ 22,153,407

Liabilities and Net Assets

	2019	2018
Current Liabilities		
Current maturities of long-term debt	$ 430,806	$ 370,306
Accounts payable	2,714,182	1,902,768
Accrued expenses	121,522	129,619
Accrued compensation costs	2,065,549	1,641,119
Total current liabilities	5,332,059	4,043,812
Long-term Debt	2,024,897	663,097
Total liabilities	7,356,956	4,706,909
Net Assets	22,890,563	17,446,498
Total liabilities and net assets	$ 30,247,519	$ 22,153,407

Equitas Health, Inc. and Subsidiaries

Consolidated Statements of Operations and Changes in Net Assets

Years Ended June 30, 2019 and 2018

	2019	2018
Revenues, Gains and Other Support		
Patient medical service revenue, net	$ 2,877,127	$ 1,778,703
Pharmacy	65,175,620	56,935,463
Grants	13,677,731	12,307,334
Other operating revenue	940,025	460,393
Total revenues, gains and other support	82,670,503	71,481,893
Expenses and Losses		
Salaries and wages	21,749,335	16,767,216
Employee benefits and payroll taxes	5,687,468	4,085,235
Contract services and professional fees	2,585,054	2,121,703
Direct assistance	1,489,295	1,045,441
Medical supplies and other	1,110,193	861,062
Pharmaceuticals	38,976,780	36,636,747
Facility costs	3,239,645	1,932,842
Depreciation	617,558	469,603
Interest	107,516	29,704
Other operating expenses	3,363,825	2,796,338
Total expenses and losses	78,926,669	66,745,891
Operating Income	3,743,834	4,736,002
Other Income		
Contributions received	1,700,231	1,640,403
Total other income	1,700,231	1,640,403
Excess of Revenues Over Expenses and Change in Net Assets	5,444,065	6,376,405
Net Assets, Beginning of Year	17,446,498	11,070,093
Net Assets, End of Year	$ 22,890,563	$ 17,446,498

Equitas Health, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

Years Ended June 30, 2019 and 2018

	2019	2018
Operating Activities		
Change in net assets	$ 5,444,065	$ 6,376,405
Items not requiring (providing) operating cash flow		
Depreciation	617,558	469,603
Provision for uncollectible accounts	317,763	189,806
Changes in		
Patient accounts and pharmacy receivables	(1,621,867)	(229,239)
Grants receivable	(466,516)	(796,206)
Contributions receivable	91,990	92,835
Inventories	(263,308)	(317,882)
Accounts payable	811,414	(981,156)
Accrued expenses and compensation costs	424,430	432,309
Other current assets and liabilities	(260,583)	(194,456)
Net cash provided by operating activities	5,094,946	5,042,019
Investing Activities		
Purchase of property and equipment	(4,342,425)	(324,869)
Net cash used in investing activities	(4,342,425)	(324,869)
Financing Activities		
Proceeds from issuance of long-term debt	1,844,528	-
Principal payments on long-term debt	(422,228)	(355,869)
Net cash provided by (used in) financing activities	1,422,300	(355,869)
Increase in Cash and Cash Equivalents	2,174,821	4,361,281
Cash and Cash Equivalents, Beginning of Year	$ 9,622,840	$ 5,261,559
Cash and Cash Equivalents, End of Year	$ 11,797,661	$ 9,622,840

Equitas Health, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
June 30, 2019 and 2018

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

Nature of Operations

Equitas Health, Inc. and Subsidiaries (the Organization) is a regional not-for-profit, community-based, health care system and federally qualified community health center look-alike organization. Originally established in 1984 as the Aids Resource Center of Ohio, the Organization's mission is to be the gateway to good health for those at risk of or affected by HIV/AIDS, for the lesbian, gay, bisexual, transgender, and queer/questioning (LGBTQ) community, and for those seeking a welcoming health care home.

The Organization's mission has made it one of the nation's largest HIV/AIDS, LGTBQ health care organizations. With 17 offices in 11 cities, it serves more than 67,000 individuals in Ohio, Kentucky and West Virginia each year through its diverse health care and social service delivery system focused around: primary and specialized medical care, community pharmacy, dental, behavioral health, HIV/STI prevention, housing assistance and supportive services, advocacy, and other community health initiatives. The Organization operates a Federally Qualified Health Center (FQHC) Look-Alike under the Public Health Service Act §330 program. Designation as an FQHC Look-Alike allows organizations to receive cost reimbursement from Medicare and Medicaid and to participate in the Public Health Service Act §340(b) pharmacy purchase program.

The Equitas Health Pharmacy operates as a social enterprise for Equitas Health and is one of the pillars of the Organization's patient-centered model. The full-service retail pharmacy provides medications to HIV-positive and other Organization patients and is also open to the public. One hundred percent of pharmacy profits are reinvested back into the Organization's programs and services, providing an earned income revenue line for the Organization while providing a critical service for the community.

During 2018, the Organization started Prizm, LLC to connect LGBTQ+ people across Ohio to a statewide community through a magazine that covers news, politics, health, arts, entertainment, fashion and culture.

In 2019, the Organization founded GGH, LLC, whose purpose is to own property on behalf of, and lease property to, Equitas Health, Inc. for use in the Organization's chartable purpose of meeting the health care needs of the medically underserved and providing care to the LGBTQ+ community.

Principles of Consolidation

The consolidated financial statements include the accounts of the Equitas Health, Inc. (Equitas), Equitas Health Pharmacy, LLC (Pharmacy), Prizm, LLC (Prizm), and GGH, LLC (LLC). All material intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses, gains, losses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Cash Equivalents

The Organization considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2019 and 2018, cash equivalents consisted primarily of money market accounts.

At June 30, 2019, the Organization's cash accounts exceeded federally insured limits by approximately $11,540,000.

Patient Accounts Receivable

Accounts receivable are reduced by an allowance for doubtful accounts. In evaluating collectibility of accounts receivable, the Organization analyzes its past history and identifies trends for each of its major payer sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for uncollectible accounts. Management regularly reviews data about these major payer 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 insurance coverage, the Organization analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for uncollectible accounts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payer has not yet paid, or for payers who are known to be having financial difficulties that make the realization of amounts due unlikely).

For receivables associated with self-pay patients (which includes both patients without insurance and patients with insurance that have deductible and copayment balances due for which the third-party insurance coverage exists for part of the bill), the Organization records a provision for uncollectible accounts 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 and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

Inventories

Supply inventories are stated at the lower of cost or net realizable value. Costs are determined using the first-in, first-out (FIFO) method.

Property and Equipment

Property and equipment acquisitions over $3,000 are stated at cost, less accumulated depreciation and amortization. Depreciation is charged to expense on the straight-line basis over the estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements are amortized over the shorter of the lease term or respective estimated useful lives.

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

Building and leasehold improvements	30-40 years
Furniture and equipment	5-7 years
Computers and software	3-5 years

Long-Lived Asset Impairment

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

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

Net Assets

Net assets, revenues, gains and losses are classified based on the existence or absence of donor or grantor restrictions. Net assets without donor restrictions are available for use in general operations and not subject to donor or certain grantor restrictions. The Organization has no significant net assets with donor restrictions.

Patient Medical Service Revenue

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

Pharmacy Revenue

Pharmacy revenue includes both retail revenue and 340B revenue. The 340B "Drug Discount Program" enables qualifying health care providers to purchase drugs from pharmaceutical suppliers at a substantial discount. The 340B Drug Discount Program is managed by the Health Resources and Services Administration (HRSA) Office of Pharmacy Affairs. The Organization earns revenue under this program by purchasing pharmaceuticals at a reduced cost to fill prescriptions to qualified patients. Both the retail and 340B gross receipts are included in pharmacy revenue on the consolidated statements of operations and changes in net assets. Drug replenishment costs are included in pharmaceuticals expenses.

Government Grants

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

Contributions

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

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

In addition to receiving cash contributions, the Organization receives in-kind contributions from various donors, primarily in the form of below market value lease agreements. It is the policy of the Organization to record the estimated fair value of certain in-kind donations as an expense or asset in its financial statements, and similarly increase contribution revenue by a like amount.

Professional Liability Claims

The Organization recognizes an accrual for claim liabilities based on estimated ultimate losses and costs associated with settling claims and a receivable to reflect the estimated insurance recoveries, if any. Professional liability claims are described more fully in *Note 6*.

Income Taxes

Equitas Health, Inc. and its subsidiaries are incorporated under the laws of the state of Ohio as not-for-profit corporations and are exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of state law. However, the Organization is subject to federal income tax on any unrelated business taxable income. The Organization files tax returns in the U.S. federal jurisdiction.

Reclassifications

Certain reclassifications have been made to the 2018 financial statements to conform to the 2019 financial statement presentation. These reclassifications had no effect on the change in net assets.

Note 2: Grant Revenue

The Organization is the recipient of Ryan White Part A, B, and C grants (Ryan White Grants) from the U.S. Department of Health and Human Services and certain state and local sources. The general purpose of these grants is to provide expanded health care service delivery for HIV patients. Terms of the grants generally provide for funding of the Organization's operations based on an approved budget.

Grant revenue is recognized as qualifying expenditures are incurred over the grant period. During the years ended June 30, 2019 and 2018, the Organization recognized approximately $9,700,000 and $6,500,000 in grant revenue from Ryan White Grants. Earned portions of the grants not yet received as of year-end are recorded as grant receivables.

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

Note 3: Patient Medical Service Revenue

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

As discussed in *Note 1,* the Organization operates as an FQHC Look-Alike for both Medicare and Medicaid reimbursement purposes. Payment arrangements under these programs are as follows:

> **Medicare -** Covered FQHC services rendered to Medicare program beneficiaries are paid under a prospective payment system (PPS) for FQHCs. Medicare payments, including patient co-insurance, is paid based on the lessor of the Health Center's actual charge or the applicable PPS rate. Services not covered under the FQHC benefit are paid based on established fee schedules.

> **Medicaid -** Covered FQHC services rendered to Ohio Medicaid program beneficiaries are paid under PPS using established per-visit payment amounts for cost-based clinical services.

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

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

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

	2019	2018
Medicare	$ 809,063	$ 777,000
Medicaid	1,727,638	1,467,835
Other third-party payers	2,604,583	2,118,458
Patients	549,072	97,743
	5,690,356	4,461,036
Less: Contractual discounts and allowances	(2,495,466)	(2,492,527)
Less: Provision for uncollectible accounts	(317,763)	(189,806)
	(2,813,229)	(2,682,333)
	$ 2,877,127	$ 1,778,703

Note 4: Concentration of Credit Risk

The Organization grants credit without collateral to its patients, most of whom are insured under third-party payer agreements. The mix of receivables from patients (medical service revenue only) and third-party payers at June 30, 2019 and 2018, is:

	2019	2018
Medicare	9%	11%
Medicaid	27%	39%
Other third-party payers	43%	33%
Patients	21%	17%
	100%	100%

Note 5: Contributions Receivable

All significant contributions receivable amounts outstanding at June 30, 2019 are due within the next fiscal year and have no specific purpose restriction from the donor. Accordingly, management has presented all net assets as those without donor restriction in the accompanying consolidated balance sheets.

Note 6: Long-Term Debt

	2019	2018
Note payable, bank (A)	$ 1,794,126	$ -
Note payable, bank (B)	531,038	855,053
Capital lease obligation (C)	130,539	178,350
Less current maturities	(430,806)	(370,306)
	$ 2,024,897	$ 663,097

(A) Due July 2028; payable $12,346 monthly plus interest at 5.10%; secured by certain property and equipment.

(B) Due January 2021; payable $28,645 monthly plus interest at 2.75%; secured by assets of the Organization.

(C) Capital lease covering phone equipment for four years expiring September 2020. Cost of equipment leased was $218,192 and is being depreciated on a straight-line basis over the lease term.

Aggregate annual maturities and sinking fund requirements of long-term debt and payments on capital lease obligations at June 30, 2019, are:

	Long-term Debt (Excluding Capital Lease Obligations	Capital Lease Obligations
2020	$ 389,696	$ 50,196
2021	257,488	50,196
2022	62,854	50,196
2023	66,183	8,366
2024	69,471	-
Thereafter	1,479,472	-
	$ 2,325,164	158,954
Less amount representing interest		28,415
Present value of future minimum lease payments		130,539
Less current maturities		41,110
Noncurrent portion		$ 89,429

Note 7: Professional Liability Claims

The Organization purchases medical malpractice insurance under a claims-made policy. Under such a policy, only claims made and reported to the insurer during the policy term, regardless of when the incidents giving rise to the claims occurred, are covered. The Organization also purchases excess umbrella liability coverage, which provides additional coverage above the basic policy limits up to the amount specified in the umbrella policy.

Note 8: Operating Leases

Noncancellable operating leases for office space expire in various years through 2027. These leases generally contain renewal options for periods ranging from 1 to 3 years and require the Organization to pay all executory costs (property taxes, maintenance and insurance). Future minimum lease payments at June 30, 2019, were:

2020	$ 1,433,511
2021	1,189,644
2022	753,631
2023	617,249
2024	472,797
Thereafter	589,320
	$ 5,056,152

Note 9: Functional Expenses

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

	2019								
	Programs					Support			
	Client Services	Public Education and Information	Public Policy	Medical Center and Pharmacy	Program Services Total	Management and General	Fundraising	Total	2018
Salaries and wages	$ 7,619,865	$ 2,352,251	$ 251,296	$ 7,077,818	$ 17,301,230	$ 3,626,147	$ 821,958	$ 21,749,335	$ 16,767,214
Employee benefits and payroll taxes	2,333,046	689,620	26,474	1,635,067	4,684,207	834,586	168,675	5,687,468	4,085,233
Contract services and professional fees	194,366	347,928	214,018	1,260,888	2,017,200	476,855	90,999	2,585,054	2,191,338
Direct assistance	1,489,295	-	-	-	1,489,295	-	-	1,489,295	1,045,441
Medical supplies and other	61,109	122,744	-	926,340	1,110,193	-	-	1,110,193	867,863
Pharmaceuticals	-	-	-	38,976,780	38,976,780	-	-	38,976,780	36,636,747
Facility costs	1,299,754	393,014	1,228	1,021,861	2,715,857	471,723	52,065	3,239,645	1,834,507
Depreciation	26,425	12,222	1,216	437,991	477,854	137,397	2,307	617,558	469,603
Interest	-	-	-	-	-	107,516	-	107,516	29,704
Other operating expenses	589,555	749,051	26,870	659,773	2,025,249	1,083,833	254,743	3,363,825	2,818,241
Total expenses	$ 13,613,415	$ 4,666,830	$ 521,102	$ 51,996,518	$ 70,797,865	$ 6,738,057	$ 1,390,747	$ 78,926,669	$ 66,745,891

Note 10: Employee Postretirement Benefit Plans

The Organization has a 401(k) defined contribution and profit-sharing plan covering substantially all employees. The Organization matches 100% of the first 3% of eligible contributions and 50% of the next 2%. Expense was approximately $417,000 and $329,000 for the years ended June 30, 2019 and 2018, respectively.

Note 11: Liquidity and Availability

At June 30, 2019 and 2018, all of the Organization's current financial assets are available within one year of the balance sheet date for general expenditure. The Organization has no assets which contain donor restrictions, are board designated, or are part of an endowment.

Note 12: Significant Estimates and Concentrations

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

Allowance for Net Patient Service Revenue Adjustments

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

Grant Revenues

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

Medical Malpractice Claims

Estimates related to the accrual for medical malpractice claims are described in *Notes 1* and *6*.

Litigation

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

Note 13: Subsequent Events

Subsequent events have been evaluated through December 19, 2019, which is the date the financial statements were available to be issued.

Note 14: Future Change in Accounting Principle

Revenue Recognition

The Financial Accounting Standards Board amended its standards related to revenue recognition. This amendment replaces all existing revenue recognition guidance and provides a single, comprehensive revenue recognition model for all contracts with customers. The guidance provides a five-step analysis of transactions to determine when and how revenue is recognized. Other major provisions include capitalization of certain contract costs, consideration of the time value of money in the transaction price and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. The amendment also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in those judgments and assets recognized from costs incurred to fulfill a contract. The standard allows either full or modified retrospective adoption effective for annual periods beginning after December 15, 2018, for nonpublic entities (December 15, 2017, for not-for-profits that are conduit debt obligors), and any interim periods within annual reporting periods that begin after December 15, 2019, for nonpublic entities (December 15, 2018, for not-for-profits that are conduit debt obligors). The Organization is in the process of evaluating the impact the amendment will have on the financial statements.

Not-for-Profit Accounting Standard for Grants and Contributions

ASU No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, clarifies existing guidance on determining whether a transaction with a resource provider, *e.g.*, the receipt of funds under a government grant or contract, is a contribution or an exchange transaction. The guidance requires all organizations to evaluate whether the resource provider is receiving commensurate value in a transfer of assets transaction, and whether contributions are conditional or unconditional. If commensurate value is received by the resource provider, the transaction would be accounted for as an exchange transaction by applying Topic 606, *Revenue from Contracts with Customers*, or other topics. The standard clarifies that a resource provider is not synonymous with the general public. Indirect benefit received by the public as a result of the assets transferred is not equivalent to commensurate value received by the resource provider. If commensurate value is not received by the resource provider, *i.e.*, the transaction is nonexchange, the recipient organization would record the transaction as a contribution under Topic 958 and determine whether the contribution is conditional or unconditional.

Accounting for Leases

The Financial Accounting Standards Board amended its standard related to the accounting for leases. Under the new standard, lessees will now be required to recognize substantially all leases on the consolidated balance sheets as both a right-of-use asset and a liability. The standard has two types of leases for consolidated statements of operations recognition purposes: operating leases and finance leases. Operating leases will result in the recognition of a single lease expense on a straight-line basis over the lease term similar to the treatment for operating leases under existing standards. Finance leases will result in an accelerated expense similar to the accounting for capital leases under existing standards. The determination of lease classification as operating or finance will be done in a manner similar to existing standards. The new standard also contains amended guidance regarding the identification of embedded leases in service contracts and the identification of lease and nonlease components in an arrangement. The new standard is effective for annual periods beginning after December 15, 2020. The Organization is evaluating the effect the standard will have on the financial statements; however, the standard is expected to have a material effect on the financial statements due to the recognition of additional assets and liabilities for operating leases.

Note 15: Change in Accounting Principle

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

Consolidated Balance Sheet

- The balance sheet distinguishes between two new classes of net assets—those with donor-imposed restrictions and those without. This is a change from the previously required three classes of net assets—unrestricted, temporarily restricted and permanently restricted.
- Underwater donor-restricted endowment funds are shown within the donor-restricted net asset class. This is a change from the previously required classification as unrestricted net assets.

The Organization had no significant net assets with donor restrictions or endowments at June 30, 2019 or 2018.

Consolidated Statement of Operations and Changes in Net Assets

- Expenses are reported by both nature and function in one location.
- Investment income is shown net of external and direct internal investment expenses. Disclosure of the expenses netted against investment income is no longer required.

Notes to the Consolidated Financial Statements

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

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

Supplementary Information

Equitas Health, Inc. and Subsidiaries

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2019

Federal Grantor/Pass Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
U.S. Department of Housing and Urban Development				
Supportive Housing Program				
Pass Through from the Community Shelter Board				
SHP	14.267	0H0080U5E031710	$ -	$ 23,588
Housing Opportunities for Persons with AIDS				
Pass Through from State of Ohio				
Ohio Development Services Agency HOPWA Grant	14.241	N-Y-18-7KN-1	-	1,088,658
Pass Through from City of Columbus				
Columbus Health Department HOPWA Grant	14.241	N/A	-	634,913
Total Housing Opportunities for Persons with AIDS			-	1,723,571
Total U.S. Department of Housing and Urban Development			-	1,747,159
U.S. Department of Justice				
Crime Victim Assistance				
Pass Through from State of Ohio				
Buckeye Region Anti-Violence Organization - VOCA	16.575	2019-VOCA-132131648	-	91,644
Buckeye Region Anti-Violence Organization - SVAA	16.575	2019-SVAA-132131652	-	34,762
Total Crime Victim Assistance			-	126,406
Violence Against Women Formula Grants				
Pass Through from Ohio Department of Public Safety				
Buckeye Region Anti-Violence Organization	16.588	2014-WF-VA1-V8937	-	12,882
Edward Byrne Memorial Justice Assistance Grant Program				
Pass Through from City of Columbus				
Columbus Health Department	16.738	N/A	-	98,628
Total U.S. Department of Justice			-	237,916
U.S. Department of Health and Human Services				
HIV Emergency Relief Project Grants (Ryan White Part A)				
Pass Through from City of Columbus				
Provision of Medical Services	93.914	N/A	-	1,764,845
HIV Care Formula Grants (Ryan White Part B)				
Pass Through from Ohio Department of Health				
Ryan White Federal HIV Program	93.917	02560012RW0318	-	2,758,670
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease (Ryan White Part C)				
Early Intervention Services	93.918	5 H76HA00531-20-00	-	660,524
Capacity Building	93.918	4 P06HA31452-01-02	-	101,849
Total Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease (Ryan White Part C)			-	762,373
HIV Prevention Activities - Non-Governmental Organization Based				
Pass Through from Centers for Disease Control and				
High Impact Prevention	93.939	6NU65PS004740-04-02	-	389,928
Mosaic	93.939	5NU65PS923648-02-00	-	358,258
Total HIV Prevention Actvities - Non-Governmental Organization Based			-	748,186
HIV Prevention Activities - Health Department Based				
Pass Through from City of Columbus				
Gay/Bisexual Men Program	93.940	02520012HP1219	-	189,767
Pass Through from Ohio Department of Health				
Statewide Prevention Initiatives	93.940	05760012HP0518	-	281,250
Pass Through from Public Health Department of Dayton/Montgomery County				
Gay/Bisexual Men & MSMS of Color	93.940	N/A	-	100,912
Pass Through from Toledo Lucas County Health Department				
Gay/Bisexual Men of Color Program	93.940	N/A	-	23,404
Pass Through from Summit County Health Department				
MSM and AA MSM	93.940	N/A	-	16,493
Total HIV Prevention Activities - Health Department Based			-	611,826
Total U.S. Department of Health and Human Services			-	6,645,900
U.S. Department of Homeland Security				
Emergency Food and Shelter National Board Program				
Pass Through from United Way of Greater Toledo				
Federal Emergency Management Food and Shelter Program	97.024	N/A	-	3,000
			$ -	$ 8,633,975

The accompanying notes are an integral part of this Schedule

Equitas Health, Inc. and Subsidiaries
Notes to the Schedule of Expenditures of Federal Awards
Year Ended June 30, 2019

Notes to Schedule

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

2. Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. The Organization has elected not to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

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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

Board of Trustees
Equitas Health, Inc. and Subsidiaries
Columbus, Ohio

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 Equitas Health, Inc. and Subsidiaries (Organization), which comprise the consolidated balance sheet as of June 30, 2019, and the related consolidated statements of operations and changes in net assets, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated December 19, 2019, which contained an emphasis of matter paragraph for the adoption of a new accounting principle and a reference to the report of other auditors.

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 entity'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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BKD, LLP

Cincinnati, Ohio
December 18, 2019

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Report on Compliance for Each Major Federal Program and Report on Internal Control over Compliance

Independent Auditor's Report

Board of Trustees
Equitas Health, Inc. and Subsidiaries
Columbus, Ohio

Report on Compliance for Each Major Federal Program

We have audited Equitas Health, Inc. and Subsidiaries' (Organization) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs for the year ended June 30, 2019. The Organization's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for 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* (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 each of its major federal programs 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.

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.

BKD, LLP

Cincinnati, Ohio
December 19, 2019

Equitas Health, Inc. and Subsidiaries
Schedule of Findings and Questioned Costs
Year Ended June 30, 2019

Summary of Auditor's Results

Financial Statements

1. The type of report the auditor issued on whether the financial statements audited were prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) was (were):

   (Check each description that applies)

   ☒ Unmodified ☐ Qualified ☐ Adverse ☐ Disclaimer

2. The independent auditor's report on internal control over financial reporting disclosed:

   Significant deficiency(ies)? ☐ Yes ☒ None reported

   Material weakness(es)? ☐ Yes ☒ No

3. Noncompliance considered material to the financial statements was disclosed by the audit? ☐ Yes ☒ No

Federal Awards

4. The independent auditor's report on internal control over compliance for major federal awards programs disclosed:

   Significant deficiency(ies)? ☐ Yes ☒ None reported

   Material weakness(es)? ☐ Yes ☒ No

5. The opinion(s) expressed in the independent auditor's report on compliance for major federal awards was (were):

   (Check each description that applies. If any other than unmodified apply, also list the name of each major program by the type of opinion applicable to that program)

   ☒ Unmodified ☐ Qualified ☐ Adverse ☐ Disclaimer

6. The audit disclosed findings required to be reported by 2 CFR 200.516(a)? ☐ Yes ☒ No

Equitas Health, Inc. and Subsidiaries
Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2019

7. The Organization's major programs were:

Cluster/Program	CFDA Number
Housing Opportunities for Persons with AIDS	14.241
HIV Emergency Relief Project Grants (Ryan White Part A)	93.914
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease (Ryan White Part C)	93.918

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

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

Equitas Health, Inc. and Subsidiaries

Schedule of Findings and Questioned Costs (Continued)

Year Ended June 30, 2019

Findings Required to be Reported by Government Auditing Standards

No matters are reportable.

Findings Required to be Reported by the Uniform Guidance

No matters are reportable.

Equitas Health, Inc. and Subsidiaries

Summary of Schedule of Prior Year Audit Findings

Year Ended June 30, 2019

Reference Number	Summary of Finding	Status

No matters are reportable.