NEIGHBORCARE HEALTH

CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

YEARS ENDED DECEMBER 31, 2020 AND 2019

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CliftonLarsonAllen LLP
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INDEPENDENT AUDITORS' REPORT

Board of Directors
Neighborcare Health
Seattle, Washington

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Neighborcare Health, a Washington nonprofit corporation, which comprise the consolidated statements of financial position as of December 31, 2020 and 2019, and the related consolidated statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 auditors' 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 Neighborcare Health as of December 31, 2020 and 2019, and the results of its operations, changes in its net assets, and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating statements of financial position and statements of activities and changes in net assets are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. Such 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 have also issued our report dated REPORT DATE, on our consideration of Neighborcare Health'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 Neighborcare Health'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 Neighborcare Health's internal control over financial reporting and compliance.

CliftonLarsonAllen LLP

Bellevue, Washington
REPORT DATE

NEIGHBORCARE HEALTH
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2020 AND 2019

	2020	2019
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	$ 4,798,963	$ 3,849,534
Accounts Receivable, Net	1,387,205	3,321,383
Grants Receivable	6,225,276	4,582,328
Other Receivables	1,971,336	665,086
Other Current Assets	1,869,964	1,608,244
Short-Term Investments	16,389,399	8,755,785
Total Current Assets	32,642,143	22,782,360
PROPERTY AND EQUIPMENT, Net	43,378,856	44,708,463
OTHER ASSETS		
Receivable from Meridian Investment Fund, LLC	9,304,400	9,304,400
PTSO Prepaid Costs, Net	-	19,843
Contributed Land Use Receivable	3,858,054	3,881,346
Investments	1,005,822	7,004,215
Total Other Assets	14,168,276	20,209,804
Total Assets	$ 90,189,275	$ 87,700,627

See accompanying Notes to Consolidated Financial Statements.

NEIGHBORCARE HEALTH
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (CONTINUED)
DECEMBER 31, 2020 AND 2019

	2020	2019
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable	$ 1,301,142	$ 1,158,225
Accrued Expenses	3,767,250	3,900,193
Estimated Settlement Due to Third-Party Payor	13,859,706	11,482,310
Deferred Revenue	64,536	341,641
Current Portion of Long-Term Debt	2,152,593	498,333
Total Current Liabilities	21,145,227	17,380,702
LONG-TERM LIABILITIES		
Long-Term Debt, Less Current Portion	13,919,167	16,044,816
Refundable Grant	1,346,360	1,147,098
Total Long-Term Liabilities	15,265,527	17,191,914
Total Liabilities	36,410,754	34,572,616
COMMITMENTS AND CONTINGENCIES		
NET ASSETS		
Net Assets Without Donor Restrictions:		
Undesignated	47,360,260	46,667,453
Designated by the Board of Directors	2,500,000	2,500,000
Total Net Assets Without Donor Restrictions	49,860,260	49,167,453
Net Assets With Donor Restrictions	3,918,261	3,960,558
Total Net Assets	53,778,521	53,128,011
Total Liabilities and Net Assets	$ 90,189,275	$ 87,700,627

See accompanying Notes to Consolidated Financial Statements.

NEIGHBORCARE HEALTH
CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
YEAR ENDED DECEMBER 31, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
OPERATING REVENUE			
Net Patient Service Revenue	$ 40,512,373	$ -	$ 40,512,373
Revenue from Capitated Contracts	3,044,172	-	3,044,172
Grant Revenue	20,930,136	-	20,930,136
Shared Savings Revenue	2,152,746	-	2,152,746
Contributions	1,638,115	93,713	1,731,828
In-Kind Donations	3,068,758	-	3,068,758
Other	3,437,232	-	3,437,232
Loss on Disposal of Assets	(29,125)	-	(29,125)
Total Operating Revenue	74,754,407	93,713	74,848,120
NET ASSETS RELEASED FROM RESTRICTION	136,010	(136,010)	-
OPERATING EXPENSES			
Program Services	55,324,387	-	55,324,387
Management and General	18,780,604	-	18,780,604
Fundraising	327,163	-	327,163
Total Operating Expenses	74,432,154	-	74,432,154
OPERATING INCOME (LOSS)	458,263	(42,297)	415,966
NONOPERATING REVENUE			
Investment Return	234,544	-	234,544
EXCESS OF REVENUES OVER EXPENSES AND CHANGE IN NET ASSETS	692,807	(42,297)	650,510
Net Assets - Beginning of Year	49,167,453	3,960,558	53,128,011
NET ASSETS - END OF YEAR	$ 49,860,260	$ 3,918,261	$ 53,778,521

See accompanying Notes to Consolidated Financial Statements.

NEIGHBORCARE HEALTH
CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
YEAR ENDED DECEMBER 31, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
OPERATING REVENUE			
Net Patient Service Revenue	$ 54,021,017	$ -	$ 54,021,017
Revenue from Capitated Contracts	1,379,595	-	1,379,595
Grant Revenue	16,526,260	-	16,526,260
Shared Savings Revenue	1,418,322	-	1,418,322
Contributions	1,490,235	81,713	1,571,948
In-Kind Donations	2,541,708	-	2,541,708
Other	1,951,071	-	1,951,071
Loss on Disposal of Assets	-	-	-
Total Operating Revenue	79,328,208	81,713	79,409,921
NET ASSETS RELEASED FROM RESTRICTION	122,607	(122,607)	-
OPERATING EXPENSES			
Program Services	60,682,211	-	60,682,211
Management and General	19,830,082	-	19,830,082
Fundraising	440,998	-	440,998
Total Operating Expenses	80,953,291	-	80,953,291
OPERATING LOSS	(1,502,476)	(40,894)	(1,543,370)
NONOPERATING REVENUE			
Investment Return	551,712	-	551,712
DEFICIT OF REVENUES OVER EXPENSES AND CHANGE IN NET ASSETS	(950,764)	(40,894)	(991,658)
Net Assets - Beginning of Year	50,118,217	4,001,452	54,119,669
NET ASSETS - END OF YEAR	$ 49,167,453	$ 3,960,558	$ 53,128,011

See accompanying Notes to Consolidated Financial Statements.

NEIGHBORCARE HEALTH
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2020

	Program Services							
	Primary Care Medical and Obstetrics	General Dentistry and Prosthodontics	School Based Health Centers	Homeless Programs	Total Program	Management and General	Fundraising	Total
Salaries	$ 19,368,573	$ 7,842,185	$ 2,319,052	$ 2,441,457	$ 31,971,267	$ 9,711,362	$ 191,625	$ 41,874,254
Payroll Taxes and Employee Benefits	4,008,633	2,057,366	532,498	521,914	7,120,411	2,813,291	42,721	9,976,423
Total Salaries, Taxes, and Benefits	23,377,206	9,899,551	2,851,550	2,963,371	39,091,678	12,524,653	234,346	51,850,677
Professional Fees	3,160,386	980,324	314,347	341,655	4,796,712	1,988,571	58,646	6,843,929
Pharmaceuticals	2,841,164	6,327	271,875	18,766	3,138,132	-	-	3,138,132
Depreciation and Amortization	1,040,754	905,940	155,325	88,946	2,190,965	877,245	-	3,068,210
Supplies	1,008,374	703,406	30,244	54,128	1,796,152	933,032	2,182	2,731,366
Occupancy	1,308,763	440,818	293,678	63,122	2,106,381	764,835	2,230	2,873,446
Miscellaneous	111,025	45,441	7,339	6,180	169,985	705,071	11,043	886,099
Fundraising	-	-	-	-	-	-	-	-
Telephone	296,201	152,737	117,142	60,371	626,451	228,003	2,746	857,200
Interest	6,051	4,034	-	-	10,085	198,048	-	208,133
Laboratory Fees	75,012	204,638	9,321	5,147	294,118	-	-	294,118
Printing and Publications	12,755	7,860	5,185	187	25,987	77,903	12,710	116,600
Insurance	100,485	60,001	5,538	5,626	171,650	163,444	-	335,094
Dues and Taxes	182,946	28,095	8,236	9,206	228,483	46,621	95	275,199
Equipment, Rent, and Maintenance	211,835	83,592	6,480	1,812	303,719	207,149	318	511,186
Staff Education	93,364	50,987	7,110	15,078	166,539	7,383	390	174,312
Mileage, Travel, and Conferences	24,324	4,631	3,857	5,443	38,255	33,069	489	71,813
Postage	35,709	10,386	129	292	46,516	25,577	1,968	74,061
Laundry	45,890	75,711	978	-	122,579	-	-	122,579
Total Expenses	$ 33,932,244	$ 13,664,479	$ 4,088,334	$ 3,639,330	$ 55,324,387	$ 18,780,604	$ 327,163	$ 74,432,154

See accompanying Notes to Consolidated Financial Statements.

NEIGHBORCARE HEALTH
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2019

	Program Services								
	Primary Care Medical and Obstetrics	General Dentistry and Prosthodontics	School Based Health Centers	Homeless Programs	Community Programs	Total Program	Management and General	Fundraising	Total
Salaries	$ 21,175,414	$ 10,249,896	$ 2,992,129	$ 2,219,802	$ 216,035	$ 36,853,276	$ 10,528,053	$ 230,872	$ 47,612,201
Payroll Taxes and Employee Benefits	3,916,686	1,971,815	610,070	428,145	45,928	6,972,644	2,433,902	47,993	9,454,539
Total Salaries, Taxes, and Benefits	25,092,100	12,221,711	3,602,199	2,647,947	261,963	43,825,920	12,961,955	278,865	57,066,740
Professional Fees	2,959,636	728,039	329,574	286,623	19,670	4,323,542	2,883,339	69,090	7,275,971
Pharmaceuticals	3,723,497	414	314,319	27,081	-	4,065,311	-	-	4,065,311
Depreciation and Amortization	869,281	775,910	148,579	36,438	630	1,830,838	969,753	-	2,800,591
Supplies	645,761	1,190,078	68,782	85,961	8,656	1,999,238	127,929	459	2,127,626
Occupancy	1,515,835	436,201	121,005	67,174	4,043	2,144,258	803,459	4,327	2,952,044
Miscellaneous	118,965	67,543	14,527	10,944	1,001	212,980	738,151	39,442	990,573
Telephone	271,401	121,890	118,490	49,285	7,611	568,677	196,125	2,122	766,924
Interest	14,838	9,892	-	-	-	24,730	268,507	-	293,237
Laboratory Fees	15,149	557,267	52,697	9,871	-	634,984	-	-	634,984
Printing and Publications	18,022	7,811	15,547	382	132	41,894	78,659	36,297	156,850
Insurance	79,822	59,735	4,704	4,013	-	148,274	156,269	7	304,550
Dues and Taxes	17,075	4,105	7,114	3,430	1	31,725	346,542	1,282	379,549
Equipment, Rent, and Maintenance	200,091	101,149	14,420	1,587	46	317,293	129,792	2,652	449,737
Staff Education	139,666	69,824	25,396	21,976	843	257,705	26,890	297	284,892
Mileage, Travel, and Conferences	40,486	23,519	11,981	15,963	1,412	93,361	96,606	1,472	191,439
Postage	42,626	8,853	689	68	3	52,239	46,106	4,686	103,031
Laundry	44,432	63,329	1,481	-	-	109,242	-	-	109,242
Total Expenses	$ 35,808,683	$ 16,447,270	$ 4,851,504	$ 3,268,743	$ 306,011	$ 60,682,211	$ 19,830,082	$ 440,998	$ 80,953,291

See accompanying Notes to Consolidated Financial Statements.

NEIGHBORCARE HEALTH
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2020 AND 2019

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in Net Assets	$ 650,510	$ (991,658)
Adjustments to Reconcile Changes in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	3,054,492	2,764,386
Amortization of PTSO	13,718	36,205
Unrealized Gain on Investments	(3,714)	(53,563)
Loss on Disposal of Assets	29,125	-
Contributed Land Use Receivable	23,292	22,266
Changes in Assets and Liabilities:		
Accounts Receivable	1,934,178	(550,511)
Grants Receivable	(1,642,948)	(647,325)
Other Receivables	(1,306,250)	1,318,032
Prepaid Expenses and Other Current Assets	(261,720)	(173,217)
Accounts Payable	142,917	(72,370)
Accrued Expenses	(132,943)	70,793
Estimated Settlement Due to Third-Party Payor	2,377,396	(2,856,572)
Deferred Revenue	(277,105)	90,901
Refundable Grant	199,262	1,147,098
Net Cash Provided by Operating Activities	4,800,210	104,465
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Property and Equipment	(1,817,885)	(3,354,280)
Proceeds from Sale of Assets	70,000	-
Purchase of Investments	(12,500,000)	(20,121,330)
Proceeds from Sale of Investments	10,868,493	21,225,790
Net Cash Used by Investing Activities	(3,379,392)	(2,249,820)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal Payments on Long-Term Debt	(471,389)	(498,333)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	949,429	(2,643,688)
Cash and Cash Equivalents - Beginning of Year	3,849,534	6,493,222
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 4,798,963	$ 3,849,534
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash Paid for Interest	$ 208,132	$ 293,238

See accompanying Notes to Consolidated Financial Statements.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Neighborcare Health, a community health center and Washington nonprofit corporation, provides medical, behavioral health, dental care, and health education at 30 clinics throughout Seattle to underserved, low-income residents and others who have difficulty accessing health care services. Services are rendered regardless of an individual's ability to pay.

Meridian Center for Health (Meridian) was formed in July 2014 to facilitate the Meridian New Markets Tax Credit financing discussed in Note 10. Meridian is a nonprofit corporation, per Section 501(c)(3) of the Internal Revenue Code (IRC).

Principles of Consolidation

The consolidated financial statements of Neighborcare Health include the accounts of Neighborcare Health and Meridian Center for Health, collectively referred to as the "Organization." All intercompany transactions have been eliminated.

Basis of Presentation

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 – Include net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. Amounts designated by the board of directors of Neighborcare Health are included in this classification.

Net Assets With Donor Restrictions – Include net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor (Note 13). Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. At December 31, 2020 and 2019, no donor-imposed restrictions were perpetual in nature. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource has been fulfilled, or both.

Unconditional promises to give cash and other assets are accrued at estimated fair market value at the date each promise is received. Management reports contributions restricted by donors as increases in net assets without donor restrictions if the restrictions expire in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported as an increase in net assets without donor restrictions. Income earned on net assets with donor restrictions, including capital appreciation, is recognized in the period earned.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates

Management uses estimates and assumptions in preparing these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were used.

Cash and Cash Equivalents

Cash and cash equivalents represent checking, savings, and money market accounts. Certificates of deposit and short-term highly liquid investments with an original maturity of three months or less to be cash equivalents, except for those held in the investment portfolio and subject to the investment policy. The Organization maintains cash deposits in bank accounts which may exceed federally insured limits.

Patient Service Revenue, Net and Patient Accounts Receivable

Patient service revenue, net and patient accounts receivable 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. The Organization provides care to patients regardless of their ability to pay.

Patient accounts receivable are reduced for explicit and implicit price concessions. In establishing its estimate of collectibility of accounts receivable, the Organization analyzes its past history and collection patterns of its major payor revenue sources. These estimates are adjusted as appropriate for volume, service mix and rate changes.

For receivables associated with self-pay patients (which include patients without insurance who are not covered by the Organization's sliding fee discount program and patients with deductible and copayments balances due for which third-party coverage exists for part of the bill), the Organization records an implicit discount in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated or provided by policy) and the amounts actually collected after all reasonable collection efforts have been exhausted are considered a change in estimate of the implicit price concession.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Organization grants credit without collateral to its patients, most of whom are residents in the communities that it serves and are either insured under third-party payor agreements or uninsured. The mix of patient accounts receivable by major payor as of December 31, 2020 and 2019 consists of the following:

	2020	2019
Medicaid	$ 531,290	$ 1,371,755
Other Third-Party Payors	384,541	1,173,360
Medicare	229,910	518,815
Patients	241,464	257,453
Total	$ 1,387,205	$ 3,321,383

Investments

Investments in equity and debt securities are valued at their fair values in the consolidated statements of financial position. Investment income, including realized and unrealized gains and losses, is included in the consolidated statements of activities and changes in net assets.

Property and Equipment

Property and equipment purchases greater than $5,000 with useful lives that extend beyond three years are recorded at cost or, if donated, at the fair market value at the date of donation. Depreciation is calculated using the straight-line method over the following estimated lives:

Buildings and Improvements	5-40 Years
Furniture and Equipment	3-20 Years

Leasehold improvements are depreciated using the straight-line method over the shorter of the useful life of the asset or the term of the lease. The Organization reviews its capital assets for impairment whenever events or changes in circumstances indicate that the carrying value of such property may not be recoverable.

Refundable Grants

The Organization received grants that were determined to be conditional, including both a barrier and right of return. The grant requires the Organization to maintain the property and equipment acquired by grant funds to be used for the intended purposes over a period of 10 years. Otherwise, the grant will be required to be refunded for the original amount plus interest. Conditional grants are not recognized until the conditions have been substantially met or are waived by the donor. As a result, the carrying amount of $1,346,360 will remain on the accompanying statement of financial position for a period of 10 years from inception in 2019.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Excess (Deficit) of Revenues Over Expenses

The consolidated statements of activities and changes in net assets include excess (deficit) of revenues over expenses. Changes in net assets without donor restrictions which are excluded from operations, consistent with industry practice, are the effective portion of the gain or loss on cash flow hedging instruments, permanent transfers of assets to and from affiliates for other than goods and services, restricted contributions, and 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 and the related releases).

Revenue from Capitated Contracts

Certain agreements with various Health Maintenance Organizations (HMOs) require the Organization to provide primary care services to subscribing participants. Monthly capitation payments are based on the number of participants, regardless of services actually performed by the Organization.

Grant Revenue

The Organization receives support from various federal, state, and local government agencies. Grant receipts are subject to restrictions on the use of funds placed by the grantor. The Organization administers these funds in accordance with grantor guidelines.

Grant revenue under cost reimbursement arrangements is recognized as expenses are incurred. Amounts incurred but not yet reimbursed are reported as grant receivables.

Shared Savings Revenue

As a member of the Community Health Plan of Washington (CHP), the Organization has agreed to serve as a provider of primary care services for a certain amount per member per month and to provide case management services to these same members related to specialty and hospital services. In return, the Organization will participate in any specialty and hospital pool savings realized by CHP in providing these services, based upon a formula determined by the board of directors. The Organization receives distributions of these savings over an 8- to 18-month period following the end of a plan year. Management books the risk pool savings settlements when the amount is known.

In-Kind Contributions

The Organization occupies, without charge, certain premises owned by others. The Organization also receives contributed services and supplies from various sources. Volunteers, including members of the board of directors, have made significant contributions of time to the Organization. The value of this contributed time does not meet the criteria for recognition under current accounting standards and, accordingly, is not reflected in the accompanying consolidated financial statements. Certain professional services formally documented and charged at prevailing rates to the relevant project are recorded in the accompanying consolidated financial statements.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In-Kind Contributions (Continued)

Contributed goods and services are recorded at market values or the usual customary charge. During the years ended December 31, the Organization received in-kind donations of:

	2020	2019
Materials and Equipment	$ 2,241,631	$ 1,830,534
Facilities	579,105	418,508
Other Professional Services	248,022	292,666
Total In-Kind Contributions	$ 3,068,758	$ 2,541,708

The amounts above are included as in-kind revenue and the corresponding expenses are included in program services.

Federal Income Tax

Neighborcare Health has received a determination letter from the Internal Revenue Service (IRS) that states it is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC). However, income from certain activities not related to the Organization's tax-exempt purpose is subject to taxation as unrelated business income.

Meridian Center for Health has received a determination letter from the IRS that states it is exempt from federal income taxes under Section 501(c)(3) of the IRC. However, income from certain activities not related to the Organization's tax-exempt purpose is subject to taxation as unrelated business income.

Management evaluated the Organization's tax positions and concluded that the Organization had taken no uncertain tax positions that require adjustments to the financial statements to comply with the provisions of Topic 740 of the Accounting Standards Codification. The Organization's federal income tax returns are generally subject to examination for three years after they are filed.

Allocation of Functional Expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the consolidated statements of activities and changes in net assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited. These costs, including occupancy costs and building depreciation, are allocated on a square-footage or full-time equivalency basis.

Fair Value Measurements

Fair value measurement applies to report balances that are required or permitted to be measured at fair value under existing accounting standards. The Organization emphasizes that fair value is a market-based measurement, not an entity-specific measurement. See Note 5 for further disclosure.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Upcoming Accounting Standards

FASB issued ASU 2016-02 Leases (Topic 842) requiring lessees to recognize leases on the statement of financial position and disclose key information about leasing arrangements. The new standard establishes a right-of-use (ROU) model that requires a lessee to recognize a ROU asset and lease liability on the statement of financial position for all leases with a term longer than 12 months. The standard will not be effective for Neighborcare Health until the year ending December 31, 2022. Management is currently in the process of evaluating the impact.

Reclassification

Certain prior year amounts have been reclassified for consistency with the current period presentation. These reclassifications had no effect on the reported results of operations.

Subsequent Events

Subsequent events have been evaluated through REPORT DATE, which is the date the consolidated financial statements were available to be issued.

NOTE 2 LIQUIDITY AND AVAILABILITY

As of December 31, 2020 and 2019, the Organization had days cash on hand (based on normal expenditures) of 178 and 131, respectively.

Financial assets available for general expenditure within one year of the consolidated statement of net position date consisted of the following:

	2020	2019
Cash and Cash Equivalents	$ 4,798,963	$ 3,849,534
Accounts Receivable, Net	1,387,205	3,321,383
Grants Receivable	6,225,276	4,582,328
Investments	17,395,221	15,760,000
Total Market Value Investments	$ 29,806,665	$ 27,513,245

As part of the Organization's liquidity management plan, cash in excess of daily requirements is invested in short-term investments and money market funds. Occasionally, the board of directors designates a portion of any operating surplus to an operating reserve, which was $2,500,000 as of December 31, 2020. This fund established by the board of directors may be drawn upon, if necessary, to meet unexpected liquidity needs.

NOTE 3 PATIENT SERVICE REVENUE, NET

Patient service revenue is reported at the amount that reflects the consideration to which the Organization expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payors (including health insurers and government payors), and others and includes variable consideration for retroactive revenue adjustments due to

NOTE 3 PATIENT SERVICE REVENUE, NET (CONTINUED)

settlement of audits, reviews, and investigations. Generally, the Organization bills the patients and third-party after the services are performed. Revenue is recognized as the performance obligations are satisfied.

Performance obligations are determined based on the nature of the services provided by the Organization. Revenue for performance obligations satisfied over time are recognized based on actual charges incurred in relation to total expected (or actual) charges. The Organization believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to patients receiving primary and preventive care. The Organization measures the performance obligation at the commencement of an outpatient service, to the point when it is no longer required to provide services to that patient, which is generally at the completion of the outpatient service. Revenue for performance obligations satisfied at a point in time, pharmacy services, is generally recognized when goods are provided to our patients and the Organization does not believe it is required to provide additional goods or services related to that sale.

The Organization determines the transaction price based on standard charges for goods and services provided, reduced by explicit price concessions provided to third-party payors, discounts provided to uninsured and under-insured patients in accordance with the Organization's policy and/or implicit price concessions provided to uninsured and under-insured patients. The Organization determines its estimates of explicit price concessions based on contractual agreements, its discount policy, and historical experience. The Organization determines its estimate of implicit price concessions based on its historical collection experience with this class of patients.

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

Medicare

Services rendered to Medicare program beneficiaries are paid a Prospective Payment System (PPS) rate for Federally Qualified Health Centers (FQHC. Under the FQHC PPS, Medicare pays FQHCs based on the lesser of their actual charges or the PPS rate for FQHC services furnished to a beneficiary for a medically necessary, face-to-face FQHC visit. The Organization is paid 80% of the established FQHC rate, with the beneficiary being responsible for the remaining 20%, or alternatively, the remaining 20% is billed to Medicaid for qualifying patients (dual eligible). The FQHC PPS base rate is adjusted for each FQHC site by the FQHC geographic adjustment factor (GAF), based on the geographic cost indices (GPCIs) used to adjust payment under the Medicare Physician Fee Schedule (MPFS).

The Organization is reimbursed at the PPS rate with final settlement related to Medicare bad debts and vaccines provided during the Medicare year determined after submission of annual cost reports by the Organization and audits thereof by the Centers for Medicare and Medicaid Services (CMS) fiscal intermediary. Historically, these settlement amounts have not been material.

NOTE 3 PATIENT SERVICE REVENUE, NET (CONTINUED)

Medicare Advantage

Private insurance companies administer Medicare Advantage (MA) programs. Payment rates for outpatient services provided to MA enrollees are based on contractual agreements with each MA administrator. FQHCs qualify for supplemental wrap-around payments, which is the difference between the FQHC PPS rate and the average MA per-visit rate. Wrap-around rate determination and payment is handled by the CMS Medicare fiscal intermediary.

Medicaid

Services rendered to Medicaid program beneficiaries were reimbursed under a PPS cost reimbursement methodology. The base rate that was established in 2001 includes enhancement and has since increased every calendar year by the productivity-adjusted Medicare Economic Index (MEI). During 2009, the state of Washington provided an option for FQHCs to rebase their cost or accept an Alternative Payment Methodology (APM) which has a higher payment rate than PPS. The Organization accepted the APM reimbursement. The Medicaid APM rate is paid for each FQHC qualified encounter, a medically necessary face-to-face visit, regardless of the level or amount of services provided to the beneficiary.

Medicaid Managed Care

A portion of the state of Washington's Medicaid program beneficiaries are assigned to a Medicaid managed-care program administered by private insurance companies. Services provided to enrollees are either paid based on a capitated rate or a fee for service schedule, depending on the contract. Because FQHC clinics qualify for enhanced payment rates and are reimbursed their costs, a final settlement is determined upon reconciliation of qualified encounters provided to eligible Medicaid managed-care enrollees as determined under their current reimbursement methodology, APM 3. See Note 9 for further disclosure.

Other

The Organization has payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for reimbursement under these agreements includes discounts from established charges and prospectively determined rates.

Laws and regulations concerning government programs, including Medicare and Medicaid, are complex and subject to varying interpretation. As a result of investigations by governmental agencies, various health care organizations have received requests for information and notices regarding alleged noncompliance with those laws and regulations, which, in some instances, have resulted in organizations entering into significant settlement agreements. Compliance with such laws and regulations may also be subject to future

NOTE 3 PATIENT SERVICE REVENUE, NET (CONTINUED)

government review and interpretation as well as significant regulatory action, including fines, penalties, and potential exclusion from the related programs. There can be no assurance that regulatory authorities will not challenge the Organization's compliance with these laws and regulations, and it is not possible to determine the impact (if any) such claims or penalties would have upon the Organization. In addition, the contracts the Organization has with commercial payors also provide for retroactive audit and review of claims.

Settlements with third-party payors for retroactive revenue adjustments due to audits, reviews or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor, and the Organization's historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known (that is, new information becomes available), or as years are settled or are no longer subject to such audits, reviews, and investigations. Adjustments arising from a change in the transaction price, were not significant in 2020 and 2019.

Generally, patients who are covered by third-party payors are responsible for related deductibles that vary in amount. The Organization also provides services to uninsured patients, and offers those uninsured patients a discount, either by policy or law, from standard charges. Specifically, the Organization has a policy of providing care to patients who meet certain criteria under its Sliding Fee Discount Program at amounts less than its established rates. However, all patients are requested to pay a nominal fee for each visit, and no patient is denied services because of inability to pay. Discounts under the Sliding Fee Discount Program are considered explicit price concessions. During the years ended December 31, 2020 and 2019, the Organization provided $4,543,786 and $4,529,219 respectively, of discounted services under this program based on standard charges. The Organization estimates the transaction price for patients with deductibles and coinsurance and from those who are uninsured based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any contractual adjustments, discounts, and implicit price concessions. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change. Additional revenue recognized due to changes in its estimates of implicit price concessions, discounts, and contractual adjustments were not considered material for the years ended December 31, 2020 and 2019. Subsequent changes that are determined to be the result of an adverse change in the patient's ability to pay are recorded as bad debt expense.

NOTE 3 PATIENT SERVICE REVENUE, NET (CONTINUED)

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

The Organization has determined that the nature, amount, timing and uncertainty of revenue and cash flows are affected by the following factors:

- Payors (for example, Medicare, Medicaid, managed care or other insurance, patient) have different reimbursement/payment methodologies
- Length of patient's service
- Method of reimbursement (fee for service or capitation)
- Organization's line of business that provided the service such as medical, dental and behavioral health visits

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

Patient service revenue net of explicit allowances, discounts, and implicit price concessions recognized in the period by major payor for the years ended December 31, 2020 and 2019 are as follows:

	2020	2019
Medicaid	$ 26,395,203	$ 34,760,509
Patients	8,998,564	8,555,397
Other Third-Party Payors	2,418,285	6,152,046
Medicare	2,700,321	4,553,065
Total	$ 40,512,373	$ 54,021,017

NOTE 4 INVESTMENTS

Investments are presented in the consolidated statements of financial position as follows at December 31:

	2020	2019
Short-Term Investments	$ 16,389,399	$ 8,755,785
Investments	1,005,822	7,004,215
Total Investments	$ 17,395,221	$ 15,760,000

Investments are carried at market value and consisted of the following at December 31:

	2020	2019
Money Market Funds	$ 16,389,399	$ 8,753,117
Bond Funds	1,005,822	7,004,215
Equity Securities	-	2,668
Total Market Value Investments	$ 17,395,221	$ 15,760,000

Investment income consisted of the following at December 31:

	2020	2019
Interest and Dividends	$ 232,112	$ 485,856
Realized Gain (Loss)	(1,282)	16,049
Unrealized Gain	3,714	49,807
Total Investment Return	$ 234,544	$ 551,712

NOTE 5 FAIR VALUE MEASUREMENTS

The fair value hierarchy consists of three levels of inputs that may be used to measure fair value as follows:

Level 1 – Inputs that utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Organization has the ability to access.

Level 2 – Inputs that include quoted prices for similar assets and liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. Fair values for these instruments are estimated using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows.

Level 3 – Inputs that are unobservable inputs for the asset or liability, which are typically based on an entity's own assumptions, as there is little, if any, related market activity.

In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

NOTE 5 FAIR VALUE MEASUREMENTS (CONTINUED)

The following tables present the fair value hierarchy for the balances of the assets and liabilities of the Organization measured at fair value on a recurring basis as of December 31:

	2020			
	Level 1	Level 2	Level 3	Total
Bond Funds	$ 1,005,822	$ -	$ -	$ 1,005,822
Money Market Fund	16,389,399	-	-	16,389,399
Total Assets and Liabilities at Fair Value	$ 17,395,221	$ -	$ -	$ 17,395,221

	2019			
	Level 1	Level 2	Level 3	Total
Bond Funds	$ 7,004,215	$ -	$ -	$ 7,004,215
Money Market Fund	8,753,117	-	-	8,753,117
Equities	2,668	-	-	2,668
Total Assets and Liabilities at Fair Value	$ 15,760,000	$ -	$ -	$ 15,760,000

A financial instrument's level within the fair value hierarchy is based upon the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. These financial instruments were valued using a market approach.

Following is a description of the valuation methodologies used for assets and liabilities measured at fair value.

Corporate Bonds – Bonds are valued using bid valuations from similar instruments in actively quoted markets.

Money Market Fund – Invests in high quality, short term, U.S. dollar denominated money market instruments. Money market funds are valued at quoted market prices in active markets.

Equity Securities – Securities are valued at quoted market prices in active markets.

NOTE 6 PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31:

	2020	2019
Buildings and Improvements	$ 46,733,369	$ 45,974,438
Leasehold Improvements	4,958,173	5,095,726
Furniture and Equipment	14,975,887	12,716,067
Total Depreciable Assets	66,667,429	63,786,231
Less: Accumulated Depreciation	(25,927,050)	(23,045,442)
Net Depreciable Assets	40,740,379	40,740,789
Land	2,592,380	2,592,380
Construction in Progress	46,097	1,375,294
Total Property and Equipment, Net	$ 43,378,856	$ 44,708,463

Depreciation expense for the years ended December 31, 2020 and 2019 was $3,054,492 and $2,764,386, respectively.

NOTE 7 PRACTICE TECHNOLOGY SERVICES ORGANIZATION PREPAID COSTS

The Practice Technology Services Organization of Washington (PTSO) was formed as a nonprofit joint venture to oversee the collaborative efforts of a number of community health centers in implementing an updated practice management system and an electronic health record system. PTSO is responsible for establishing a centralized network from which the system would be operated for the participating community health centers. On December 1, 2016, the PTSO became an affiliate of Oregon Community Health Information Network. The Organization will receive a future benefit from the use of the shared database management system.

At December 31, 2019, $2,392,409 is recorded as an asset due to the commitment of the PTSO to provide the Organization with the use of the hardware and software purchased. These amounts are included in the consolidated statement of financial position as PTSO prepaid costs and are amortized over five years. At December 31, 2019, $2,372,566 of accumulated amortization is included in the consolidated statements of financial position. During the year ended December 31, 2020 the asset was fully amortized and disposed.

NOTE 8 RESTRICTIONS ON USE OF PROPERTY

Included in property and equipment balances of the Organization is the 45th St. Clinic's (the Clinic) land and building, which were purchased from the City of Seattle (the City) for $10,000 in 1984. Corresponding to the acquisition, the Clinic agreed to certain limitations on the future use and disposition of the property. The significant restrictions are that the building maintains its designated landmark status and that the property cannot be sold or used as collateral for other than rehabilitation or repairs without the consent of the City.

NOTE 8 RESTRICTIONS ON USE OF PROPERTY (CONTINUED)

In December 2002, the Organization received a use of land contribution from the Seattle Housing Authority in the form of a 99-year lease at $12 a year for the use of the land on which the High Point Medical and Dental Clinic is situated. The value of the contribution, through the terms of the agreement, is recorded at the estimated present value of the future years of rent-free use and is shown as a receivable and net asset with donor restrictions.

In October 2014, the Organization received a use of land contribution from King County in the form of a 50-year lease, with no lease payments, for the use of the land on which the Meridian Center for Health is situated. The value of the contribution, through the terms of the agreement, is recorded at the estimate present value of the future years of rent-free use and is shown as a receivable and net asset with donor restrictions.

The facility contribution receivables are to be received as follows at December 31:

	2020	2019
Less than One Year	$ 196,746	$ 196,746
One to Five Years	786,984	786,984
Thereafter	8,783,158	9,176,650
Total	9,766,888	10,160,380
Less: Present Value Discount (4.5%)	5,908,834	6,279,034
Total Facility Contributions Receivable	$ 3,858,054	$ 3,881,346

NOTE 9 ESTIMATED SETTLEMENTS DUE TO THIRD-PARTY PAYOR

The state of Washington assigns the majority of the Medicaid program beneficiaries to receive benefits under a Medicaid managed-care program administered by private insurance companies. Under federal requirements the state of Washington is required to reimburse health centers no less than what they would have been paid if the Organization would have been paid their APM rate per encounter. Annually the state and the Organization complete a reconciliation utilizing an Agreed Upon Procedures process. The reconciliation for calendar years 2014 through 2017 was finalized without outstanding balance as of December 31, 2020. The reconciliation for calendar year 2018 and 2019 was submitted to the state and is pending final acceptance. The Organization has estimated results for calendar year 2020 using the same methodology.

Neighborcare Health has recognized a repayment which is included in “Estimated Settlements Due to Third-Party Payor” on the consolidated statements of financial position for approximately $13,860,000 and $11,482,000 as of December 31, 2020 and 2019, respectively. The estimate is subject to a material change based on the State’s final reconciliations and settlements of the activity to be performed.

NOTE 10 LONG-TERM DEBT

Long-term debt consists of the following at December 31 and is described below:

	2020	2019
High Point Loan	$ 554,167	$ 729,167
Meridian New Markets Tax Credit Financing	13,540,000	13,540,000
Meridian Construction Loan	1,977,593	2,273,982
Total Long-Term Debt	16,071,760	16,543,149
Less: Current Portion	(2,152,593)	(498,333)
Long-Term Debt, Net of Current Portion	$ 13,919,167	$ 16,044,816

High Point Loan

As part of the financing to construct the High Point facility, the Organization borrowed $3,500,000 in 2002 under a bank loan. The initial construction loan was refinanced, in its entirety, during February 2004. The promissory note signed has a maturity date of March 13, 2024 and has a floating interest rate of LIBOR plus 1.75% reduced by the tax-exempt rate of the bank. The interest charged under this calculation at December 31, 2020 and 2019 was 1.21% and 5.307%, respectively. The loan is secured by a deed of trust on the High Point building and land.

Meridian New Markets Tax Credit

In March 2015, the Organization entered into a New Markets Tax Credit transaction as part of the financing of the construction for its new Meridian Center for Health.

As a part of the transaction, Neighborcare Health committed to lend $9,304,400 to Meridian Investment Fund, LLC, the QEI. In turn, the Meridian Investment Fund, LLC signed a promissory note with interest accruing at 1.0365% per annum, interest payments due quarterly beginning June 10, 2015. The note matures on March 31, 2045, at which time any outstanding principal and interest are due.

Meridian Center for Health signed two promissory notes payable dated March 11, 2015, to borrow $4,900,000 from Impact CDE 51, LLC, the CDE, secured by the related real property. Interest accrues at 1.00% and is due quarterly beginning June 1, 2015. The note matures on March 11, 2045, with no prepayment allowed.

Meridian Center for Health signed two promissory notes payable dated March 11, 2015, to borrow $8,640,000 from Seattle Subsidiary Investment Fund X, LLC, the CDE, secured by the related real property. Interest accrues at 1.00% and is due quarterly beginning June 1, 2015. The note matures on March 11, 2045, with no prepayment allowed.

NOTE 10 LONG-TERM DEBT (CONTINUED)

Meridian New Markets Tax Credit (Continued)

The Organization does not control or have an economic interest in the assets of either the CDE or the QEI. The QEI is controlled and partially financed by Wells Fargo and the QEI controls and funds the CDE.

To earn the tax credit the QEI must remain invested in the CDE for a seven-year period. The Organization, the QEI, and Wells Fargo have entered into a put/call option agreement to take place at the end of the seven-year period. Under the agreement, the QEI and Wells Fargo can grant a put option to sell all interest in the QEI for $1,000 to Neighborcare Health. If the parties do not grant the put option within 90 days of the end of the seven-year period, Neighborcare Health can grant a call option to purchase the interest at an appraised fair market value.

Meridian Construction Loan

The Organization entered into a construction loan with Wells Fargo Bank on February 26, 2015, in an amount up to $4,720,898, which at the end of the construction period (the Conversion Date), shall be converted into a term loan guaranteed by Neighborcare Health. Loan is collateralized by the related real property.

On October 5, 2016, the construction loan converted into a term loan in the amount of $3,324,815. The interest rate on the construction loan shall be variable based on the Wells Fargo Prime Rate plus 1.00%. The Wells Fargo Prime rate at December 31, 2020 and 2019 was 4.25% and 5.75%, respectively. Principal payments of $26,944 are due monthly on the 5th day of each month until September 5, 2021, at which time all unpaid principal, accrued interest, and any other unpaid amounts shall be due and payable in full.

Future principal maturities of debt are as follows:

Year Ending December 31,	Amount
2021	$ 2,152,593
2022	175,000
2023	175,000
2024	29,167
2025	-
Thereafter	13,540,000
Total	$ 16,071,760

Covenants

The debt agreements contain various covenants which, among other things, place restrictions on the Organization's ability to incur additional indebtedness and require the Organization to maintain certain financial ratios. Management believes the Organization is in compliance with covenants as of December 31, 2020.

NOTE 11 OPERATING LEASES

The Organization leases clinic space, office space, and equipment under various noncancelable operating leases. Lease expense for the years ended December 31, 2020 and 2019 was $2,810,843 and $2,553,279, respectively. The future minimum payments under these leases are:

Year Ending December 31,	Amount
2021	$ 2,229,240
2022	2,622,899
2023	2,722,866
2024	2,722,459
2025	2,735,597
Thereafter	45,971,235
Total	$ 59,004,296

NOTE 12 NET ASSETS DESIGNATED BY THE BOARD OF DIRECTORS

In recognition of the need for working capital growth, reserves, and capital expansion, the Organization's board of directors has made specific designations of their net assets without donor restrictions as follows at December 31:

	2020	2019
Unrestricted and Undesignated	$ 47,360,260	$ 46,667,453
Designated for Facilities Improvement	2,500,000	2,500,000
Total Unrestricted Net Assets	$ 49,860,260	$ 49,167,453

NOTE 13 NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are available for the following purposes at December 31:

	2020	2019
Restricted for Patient Health Education	$ 60,207	$ 47,499
Restricted for Psychiatric Care	-	31,713
Contributed Land Use	3,858,054	3,881,346
Total Net Assets With Donor Restrictions	$ 3,918,261	$ 3,960,558

Net assets in the amount of $136,010 and $122,607 were released during fiscal years 2020 and 2019, respectively, by incurring expenses satisfying the restricted purposes specified by donors or through the passage of time.

NOTE 14 RETIREMENT PLAN

The Organization has a tax-sheltered Thrift Pension Plan (the Plan) under Section 403(b) of the IRC, which covers substantially all employees. The Plan permits employees to defer a portion of their salary until future years. The Organization makes contributions to the Plan for active participants in accordance with formulas specified in the Plan. For the years ended December 31, 2020 and 2019, the Organization made contributions to the Plan of $1,624,091 and $2,822,175, respectively.

NOTE 15 MALPRACTICE INSURANCE

Effective January 1, 2004, the Organization was covered under the provision of the Federal Tort Claims Act (FTCA) for malpractice. The FTCA is a government-funded program which allows community health centers and other qualified providers to be covered for malpractice. In addition, Neighborcare Health has purchased medical malpractice insurance for activities not covered under the FTCA.

NOTE 16 SELF INSURANCE

The Organization is a member of the 501(c) Agencies Trust (the Trust). The Trust facilitates the utilization by member agencies of the reimbursement financing method of meeting obligations under State Unemployment Insurance Statutes. At December 31, 2020 and 2019 the Organization had $594,532 and $308,199, respectively, on deposit with the trust to fund these obligations. These deposits are included prepaid expenses and other assets in the consolidated statements of financial position. Any potential claims that may exist cannot be estimated at December 31, 2020 and 2019; therefore, no accrual for liability has been made.

NOTE 17 MEMBER ORGANIZATIONS

Neighborcare Health is a member of the Community Health Network of Washington (CHNW), a managed care plan network formed by 20 community and migrant health centers throughout the state of Washington to participate in the managed care marketplace. CHNW is a nonprofit corporation and accepts the full insurance risk of providing health care services to enrollees in the State Medicaid program. The individual health centers are contingently liable for their proportionate share of any claims should CHNW be unable to meet its financial obligations. CHNW believes that its assets are sufficient to meet its financial obligation.

Neighborcare Health is also a member of the Community Health Plan (CHP), an affiliate of CHNW that contracts with the state of Washington for the delivery of managed care health care through community health centers. As a member of CHP, the Organization has agreed to serve as a provider of primary care services for a certain amount per member per month and to provide case management services to these same members related to specialty and hospital services. In return, the Organization will participate in any specialty and hospital pool savings realized by CHP in providing these services, based upon a formula determined by the board of directors of CHP.

NOTE 18 COLLECTIVE BARGAINING UNIT

On March 17, 2020, the Organization entered into contract with a labor union. As of December 31, 2020, approximately 64% of the Organization's employees were represented by the union under a collective bargaining agreement with SEIU Healthcare 1199NW. The contract is effective through May 31, 2021.

NOTE 19 COMMITMENTS AND CONTINGENCIES

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

The Organization is involved from time-to-time in claims, proceedings, and litigation arising in the ordinary course of business. The Organization does not believe that any such pending claims, proceedings, or litigation, either alone or in the aggregate, will have a material effect on the Organization's financial position or results of operations.

The World Health Organization declared the spread of Coronavirus Disease (COVID-19) a worldwide pandemic. The COVID-19 pandemic is having significant effects on global markets, supply chains, businesses, and communities. Specific to the Organization, COVID-19 may impact various parts of its 2021 operations and financial results, including, but not limited to, additional costs for emergency preparedness, disease control and containment, potential shortages of healthcare personnel, or potential loss of revenue due to reductions in certain revenue streams. Management believes the Organization is taking appropriate actions to mitigate the negative impact. However, the full impact of COVID-19 is unknown and cannot be reasonably estimated as these events occurred subsequent to year-end and are still developing.

Subsequent to year-end, the Organization received a 3rd distribution from the U.S. Department of Health and Human Services Provider Relief Fund in the amount of $3,781,966. The Organization will be required to meet certain terms and conditions to retain the funds.

Subsequent to year-end, the Organization received additional funding in the amount of $12,737,250 from the U.S. Department of Health Resources and Services Administration as part of the American Rescue Plan. The funding will be used to support and expand COVID-19 vaccination, testing, and treatment for vulnerable populations; deliver needed preventive and primary health care services to those at higher risk for COVID-19; and expand the Organization's operational capacity during the pandemic and beyond.

NEIGHBORCARE HEALTH
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2020
(SEE INDEPENDENT AUDITORS' REPORT)

	Neighborcare	Meridian	Eliminations	Consolidated Total
ASSETS				
CURRENT ASSETS				
Cash and Cash Equivalents	$ 2,907,797	$ 1,891,166	$ -	$ 4,798,963
Accounts Receivable, Net	1,387,205	-	-	1,387,205
Grants Receivable	6,225,276	-	-	6,225,276
Other Receivables	1,971,336	-	-	1,971,336
Other Current Assets	1,703,352	166,612	-	1,869,964
Intercompany Receivable	4,353,041	-	(4,353,041)	-
Short-Term Investments	16,389,399	-	-	16,389,399
Total Current Assets	34,937,406	2,057,778	(4,353,041)	32,642,143
PROPERTY AND EQUIPMENT, Net	26,330,684	17,048,172	-	43,378,856
OTHER ASSETS				
Receivable from Meridian Investment Fund, LLC	9,304,400	-	-	9,304,400
PTSO Prepaid Costs, Net	-	-	-	-
Contributed Land Use Receivable	3,858,054	-	-	3,858,054
Investments	1,005,822	-	-	1,005,822
Total Other Assets	14,168,276	-	-	14,168,276
Total Assets	$ 75,436,366	$ 19,105,950	$ (4,353,041)	$ 90,189,275

NEIGHBORCARE HEALTH
CONSOLIDATING STATEMENT OF FINANCIAL POSITION (CONTINUED)
DECEMBER 31, 2020
(SEE INDEPENDENT AUDITORS' REPORT)

	Neighborcare	Meridian	Eliminations	Consolidated Total
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Accounts Payable	$ 1,278,520	$ 22,622	$ -	$ 1,301,142
Accrued Expenses	3,767,250	-	-	3,767,250
Estimated Settlement Due to Third-Party Payor	13,859,706	-	-	13,859,706
Intercompany Payable	-	4,353,041	(4,353,041)	-
Deferred Revenue	64,536	-	-	64,536
Current Portion of Long-Term Debt	175,000	1,977,593	-	2,152,593
Total Current Liabilities	19,145,012	6,353,256	(4,353,041)	21,145,227
LONG-TERM LIABILITIES				
Long-Term Debt, Less Current Portion	379,167	13,540,000	-	13,919,167
Refundable Grants	1,346,360	-	-	1,346,360
Total Long-Term Liabilities	1,725,527	13,540,000	-	15,265,527
Total Liabilities	20,870,539	19,893,256	(4,353,041)	36,410,754
COMMITMENTS AND CONTINGENCIES				
NET ASSETS				
Net Assets Without Donor Restrictions:				
Undesignated	48,148,061	(787,801)	-	47,360,260
Designated by the Board of Directors	2,500,000	-	-	2,500,000
Total Net Assets Without Donor Restrictions	50,648,061	(787,801)	-	49,860,260
Net Assets With Donor Restrictions	3,918,261	-	-	3,918,261
Total Net Assets	54,566,322	(787,801)	-	53,778,521
Total Liabilities and Net Assets	$ 75,436,861	$ 19,105,455	$ (4,353,041)	$ 90,189,275

NEIGHBORCARE HEALTH
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2019
(SEE INDEPENDENT AUDITORS' REPORT)

	Neighborcare	Meridian	Eliminations	Consolidated Total
ASSETS				
CURRENT ASSETS				
Cash and Cash Equivalents	$ 2,380,553	$ 1,468,981	$ -	$ 3,849,534
Accounts Receivable, Net	3,321,383	-	-	3,321,383
Grants Receivable	4,582,328	-	-	4,582,328
Other Receivables	665,086	-	-	665,086
Other Current Assets	1,342,041	266,203	-	1,608,244
Intercompany Receivable	4,353,041	-	(4,353,041)	-
Short-Term Investments	8,755,785	-	-	8,755,785
Total Current Assets	25,400,217	1,735,184	(4,353,041)	22,782,360
PROPERTY AND EQUIPMENT, Net	27,170,717	17,537,746	-	44,708,463
OTHER ASSETS				
Receivable from Meridian Investment Fund, LLC	9,304,400	-	-	9,304,400
PTSO Prepaid Costs, Net	19,843	-	-	19,843
Contributed Land Use Receivable	3,881,346	-	-	3,881,346
Investments	7,004,215	-	-	7,004,215
Total Other Assets	20,209,804	-	-	20,209,804
Total Assets	$ 72,780,738	$ 19,272,930	$ (4,353,041)	$ 87,700,627

NEIGHBORCARE HEALTH
CONSOLIDATING STATEMENT OF FINANCIAL POSITION (CONTINUED)
DECEMBER 31, 2019
(SEE INDEPENDENT AUDITORS' REPORT)

	Neighborcare	Meridian	Eliminations	Consolidated Total
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Accounts Payable	$ 1,133,427	$ 24,798	$ -	$ 1,158,225
Accrued Expenses	3,890,386	9,807	-	3,900,193
Estimated Settlement Due to Third-Party Payor	11,482,310	-	-	11,482,310
Intercompany Payable	-	4,353,041	(4,353,041)	-
Deferred Revenue	341,641	-	-	341,641
Current Portion of Long-Term Debt	175,000	323,333	-	498,333
Total Current Liabilities	17,022,764	4,710,979	(4,353,041)	17,380,702
LONG-TERM LIABILITIES				
Long-Term Debt, Less Current Portion	554,167	15,490,649	-	16,044,816
Refundable Grants	1,147,098		-	1,147,098
Total Long-Term Liabilities	1,701,265	15,490,649	-	17,191,914
Total Liabilities	18,724,029	20,201,628	(4,353,041)	34,572,616
COMMITMENTS AND CONTINGENCIES				
NET ASSETS				
Net Assets Without Donor Restrictions				
Undesignated	47,596,151	(928,698)	-	46,667,453
Designated by the Board of Directors	2,500,000	-	-	2,500,000
Total Net Assets Without Donor Restrictions	50,096,151	(928,698)	-	49,167,453
Net Assets With Donor Restrictions	3,960,558	-	-	3,960,558
Total Net Assets	54,056,709	(928,698)	-	53,128,011
Total Liabilities and Net Assets	$ 72,780,738	$ 19,272,930	$ (4,353,041)	$ 87,700,627

NEIGHBORCARE HEALTH
CONSOLIDATING STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
DECEMBER 31, 2020
(SEE INDEPENDENT AUDITORS' REPORT)

	Neighborcare Health			Meridian		
	Without Donor Restrictions	With Donor Restrictions	Neighborcare Health Total	Without Donor Restrictions	Eliminations	Consolidated Total
OPERATING REVENUE						
Net Patient Service Revenue	$ 40,512,373	$ -	$ 40,512,373	$ -	$ -	$ 40,512,373
Revenue from Capitated Contracts	3,044,172	-	3,044,172	-	-	3,044,172
Grant Revenue	20,930,136	-	20,930,136	-	-	20,930,136
Shared Savings Revenue	2,152,746	-	2,152,746	-	-	2,152,746
Contributions	1,638,115	93,713	1,731,828	-	-	1,731,828
In-Kind Donations	3,068,758	-	3,068,758	-	-	3,068,758
Other	3,694,233		3,694,233	1,447,887	(1,704,888)	3,437,232
Loss on Disposal of Assets	(29,125)	-	(29,125)	-	-	(29,125)
Total Operating Revenue	75,011,408	93,713	75,105,121	1,447,887	(1,704,888)	74,848,120
NET ASSETS RELEASED FROM RESTRICTION	136,010	(136,010)	-	-	-	-
OPERATING EXPENSES						
Program Services	56,397,065	-	56,397,065	-	(1,072,678)	55,324,387
Management and General	18,195,824	-	18,195,824	1,216,990	(632,210)	18,780,604
Fundraising	327,163	-	327,163	-	-	327,163
Total Operating Expenses	74,920,052	-	74,920,052	1,216,990	(1,704,888)	74,432,154
OPERATING INCOME (LOSS)	227,366	(42,297)	185,069	230,897	-	415,966
NONOPERATING REVENUE						
Investment Return	234,544	-	234,544	-	-	234,544
EXCESS OF REVENUES OVER EXPENSES	461,910	(42,297)	419,613	230,897	-	650,510
TRANSFER FROM (TO) AFFILIATE	90,000	-	90,000	(90,000)	-	-
CHANGES IN NET ASSETS	551,910	(42,297)	509,613	140,897	-	650,510
Net Assets - Beginning of Year	50,096,151	3,960,558	54,056,709	(928,698)	-	53,128,011
NET ASSETS - END OF YEAR	$ 50,648,061	$ 3,918,261	$ 54,566,322	$ (787,801)	$ -	$ 53,778,521

NEIGHBORCARE HEALTH
CONSOLIDATING STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
YEAR ENDED DECEMBER 31, 2019

	Neighborcare Health			Meridian		
	Without Donor Restrictions	With Donor Restrictions	Neighborcare Health Total	Without Donor Restrictions	Eliminations	Consolidated Total
OPERATING REVENUE						
Net Patient Service Revenue	$ 54,021,017	$ -	$ 54,021,017	$ -	$ -	$ 54,021,017
Revenue from Capitated Contracts	1,379,595	-	1,379,595	-	-	1,379,595
Grant Revenue	16,526,260	-	16,526,260	-	-	16,526,260
Shared Savings Revenue	1,418,322	-	1,418,322	-	-	1,418,322
Contributions	1,490,235	81,713	1,571,948	-	-	1,571,948
In-Kind Donations	2,541,708	-	2,541,708	-	-	2,541,708
Other	2,041,526	-	2,041,526	1,392,586	(1,483,041)	1,951,071
Total Operating Revenue	79,418,663	81,713	79,500,376	1,392,586	(1,483,041)	79,409,921
NET ASSETS RELEASED FROM RESTRICTION	122,607	(122,607)	-	-	-	-
OPERATING EXPENSES						
Program Services	61,613,451	-	61,613,451	-	(931,240)	60,682,211
Management and General	19,078,894	-	19,078,894	1,302,989	(551,801)	19,830,082
Fundraising	440,998	-	440,998	-	-	440,998
Total Operating Expenses	81,133,343	-	81,133,343	1,302,989	(1,483,041)	80,953,291
OPERATING INCOME (LOSS)	(1,592,073)	(40,894)	(1,632,967)	89,597	-	(1,543,370)
NONOPERATING REVENUE						
Investment Return	551,712	-	551,712	-	-	551,712
EXCESS (DEFICIT) OF REVENUES OVER EXPENSES	(1,040,361)	(40,894)	(1,081,255)	89,597	-	(991,658)
TRANSFER FROM (TO) AFFILIATE	150,000	-	150,000	(150,000)	-	-
CHANGES IN NET ASSETS	(890,361)	(40,894)	(931,255)	(60,403)	-	(991,658)
Net Assets - Beginning of Year	50,986,512	4,001,452	54,987,964	(868,295)	-	54,119,669
NET ASSETS - END OF YEAR	$ 50,096,151	$ 3,960,558	$ 54,056,709	$ (928,698)	$ -	$ 53,128,011