PORTSMOUTH COMMUNITY HEALTH CENTER, INC.
(D/B/A HAMPTON ROADS COMMUNITY HEALTH CENTER)

FINANCIAL REPORT

June 30, 2024 with Summarized Financial Information for the Year Ended June 30, 2023

WALL
EINHORN &
CHERNITZER
CPAs & ADVISORS

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Wall
Einhorn &
Chernitzer
CPAs & ADVISORS

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Portsmouth Community Health Center, Inc.
(d/b/a Hampton Roads Community Health Center)
Portsmouth, Virginia

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of **Portsmouth Community Health Center, Inc. (d/b/a Hampton Roads Community Health Center)** (the Center), which comprise the statement of financial position as of June 30, 2024, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Center as of June 30, 2024, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Center and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note 1 of the financial statements, the Center adopted FASB ASC 326, Measurement of Credit losses on Financial Instruments. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Center's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

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Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Center's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Center's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated January 24, 2025 on our consideration of the Center'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 Center'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 Center's internal control over financial reporting and compliance.

Report on Summarized Comparative Information

We have previously audited the Center's June 30, 2023 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated January 22, 2024. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2023 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Wall, Einhorn + Chernitzer, P.C.

Norfolk, Virginia
January 24, 2025

PORTSMOUTH COMMUNITY HEALTH CENTER, INC.
(D/B/A HAMPTON ROADS COMMUNITY HEALTH CENTER)

STATEMENTS OF FINANCIAL POSITION

June 30, 2024 and 2023

ASSETS	2024	2023
CURRENT ASSETS		
Cash	**$ 815,589**	$ 623,249
Accounts receivable, less allowance for uncollectible accounts of 2024 $577,507; and 2023 $579,282	**3,227,748**	2,050,192
Grants receivable	**16,360**	-
Inventories	**51,697**	-
Prepaid expenses	**169,516**	180,835
Interest receivable	**49,000**	43,400
Equipment deposits	**535,075**	269,790
Total current assets	**4,864,985**	3,167,466
PROPERTY AND EQUIPMENT, NET OF ACCUMULATED DEPRECIATION	**4,622,623**	4,546,407
OTHER ASSETS		
Note receivable	**240,000**	240,000
Other	**6,000**	6,000
Security deposit	**15,347**	15,347
Operating lease right of use assets	**15,114,425**	15,764,701
Total other assets	**15,375,772**	16,026,048
Total assets	**$ 24,863,380**	$ 23,739,921

See Independent Auditor's Report and Notes to Financial Statements.

PORTSMOUTH COMMUNITY HEALTH CENTER, INC.
(D/B/A HAMPTON ROADS COMMUNITY HEALTH CENTER)

STATEMENTS OF FINANCIAL POSITION (CONTINUED)

June 30, 2024 and 2023

LIABILITIES AND NET ASSETS	2024	2023
CURRENT LIABILITIES		
Accounts payable	**$ 637,483**	$ 534,010
Accrued payroll and related liabilities	**491,605**	271,951
Line of credit	**968,188**	245,000
Deferred revenue, current portion	**49,923**	218,918
Note payable, current portion	**49,817**	48,039
Current portion of operating lease liabilities	**1,391,760**	1,341,710
Total current liabilities	**3,588,776**	2,659,628
LONG-TERM LIABILITIES		
Note payable, less current portion	**381,572**	446,093
Operating lease liabilities, less current portion	**13,972,896**	14,513,511
Total long-term liabilities	**14,354,468**	14,959,604
Total liabilities	**17,943,244**	17,619,232
NET ASSETS		
Without donor restrictions	**6,920,136**	6,120,689
Total liabilities and net assets	**$ 24,863,380**	$ 23,739,921

See Independent Auditor's Report and Notes to Financial Statements.

PORTSMOUTH COMMUNITY HEALTH CENTER, INC.
(D/B/A HAMPTON ROADS COMMUNITY HEALTH CENTER)

STATEMENTS OF ACTIVITIES

Years Ended June 30, 2024 and 2023

	2024	2023
Revenues and other support - without donor restrictions:		
Net patient services revenue	$ **9,627,291**	$ 7,493,656
Direct federal financial assistance	**5,462,889**	6,452,911
340B program revenue, net of supplies of 2024 $580,181; 2023 $356,875	**344,233**	942,290
Pharmacy sales, net of cost of goods sold of 2024 $337,046; 2023 $0	**63,187**	-
Grant support	**58,015**	845,897
Indirect federal financial assistance	**273,054**	282,457
Contributions of nonfinancial assets	**64,610**	38,053
Total revenues and support - without donor restrictions	**15,893,279**	16,055,264
Operating expenses:		
Program services	**11,118,272**	10,096,115
Management and general	**3,990,283**	3,676,301
Total operating expenses	**15,108,555**	13,772,416
Other income (expenses):		
Other income	**14,723**	72,695
Loss on disposal of property and equipment	**-**	(17,284)
Total other income (expenses)	**14,723**	55,411
Change in net assets - without donor restrictions	**799,447**	2,338,259
Net assets - without donor restrictions, beginning of year	**6,120,689**	3,782,430
Net assets - without donor restrictions, end of year	$ **6,920,136**	$ 6,120,689

See Independent Auditor's Report and Notes to Financial Statements.

PORTSMOUTH COMMUNITY HEALTH CENTER, INC.
(D/B/A HAMPTON ROADS COMMUNITY HEALTH CENTER)

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended June 30, 2024 with Summarized Financial Information for the Year Ended June 30, 2023

	Program	Management & General	2024 Total	2023 Summarized Total
Salaries and related expenses:				
Salaries and wages	$ 4,831,636	$ 1,896,460	$ 6,728,096	$ 6,895,606
Employee benefits	607,797	238,566	846,363	997,498
Payroll taxes	336,108	131,926	468,034	486,874
	5,775,541	2,266,952	8,042,493	8,379,978
General and administrative expenses:				
Depreciation and amortization	403,987	90,353	494,340	285,554
Insurance	67,595	21,401	88,996	75,266
Interest	-	40,530	40,530	25,776
Other operating expenses	859,527	231,162	1,090,689	957,943
Other personnel costs	800,477	253,878	1,054,355	613,752
Outsourced services	1,222,893	386,203	1,609,096	1,671,429
Rents and leases	1,359,463	441,197	1,800,660	1,025,329
Repairs and maintenance	103,072	16,169	119,241	70,404
Supplies	330,308	184,367	514,675	311,060
Utilities	195,409	58,071	253,480	317,873
	5,342,731	1,723,331	7,066,062	5,354,386
Total expenses	$ 11,118,272	$ 3,990,283	$ 15,108,555	$ 13,734,364

See Independent Auditor's Report and Notes to Financial Statements.

PORTSMOUTH COMMUNITY HEALTH CENTER, INC.
(D/B/A HAMPTON ROADS COMMUNITY HEALTH CENTER)

STATEMENTS OF CASH FLOWS

Years Ended June 30, 2024 and 2023

	2024	2023
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ **799,447**	$ 2,338,259
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	**494,340**	285,554
Lease expense, non-cash portion	**159,711**	90,520
Change in provision for bad debts	**(1,775)**	(5,226)
Loss on disposal of equipment	**-**	17,284
(Increase) decrease in assets:		
Accounts receivable, net	**(1,175,781)**	(268,924)
Grants receivable	**(16,360)**	134,152
Inventories	**(51,697)**	-
Prepaid expenses	**11,319**	(76,950)
Interest receivable on note receivable	**(5,600)**	(16,800)
Increase (decrease) in liabilities:		
Accounts payable	**103,473**	(96,857)
Accrued payroll and related liabilities	**219,654**	(2,863)
Deferred revenue	**(168,995)**	159,613
Net cash provided by operating activities	**367,736**	2,557,762
CASH FLOWS FROM INVESTING ACTIVITIES		
Equipment deposits	**(265,285)**	-
Purchases of property and equipment	**(570,556)**	(3,026,116)
Net cash used in investing activities	**(835,841)**	(3,026,116)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on note payable	**(62,743)**	(36,804)
Proceeds from line of credit, net of repayments	**723,188**	245,000
Net cash provided by financing activities	**660,445**	208,196
Net increase (decrease) in cash	**192,340**	(260,158)
Cash, beginning	**623,249**	883,407
Cash, ending	$ **815,589**	$ 623,249
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash payments for interest	$ **40,530**	$ 25,776

See Independent Auditor's Report and Notes to Financial Statements.

Note 1. Nature of Activities and Significant Accounting Policies

Nature of activities:

Portsmouth Community Health Center, Inc. (d/b/a Hampton Roads Community Health Center) (the Center) was incorporated in Virginia in 1992. The Center is a nonprofit entity organized for the primary purpose of providing health care services to the medically underserved, disadvantaged population of Portsmouth and Norfolk, Virginia and surrounding areas. The Center is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and the tax statutes of the Commonwealth of Virginia.

A summary of the Center's significant accounting policies follows:

Change in accounting principle:

In June 2016, the FASB issued *Accounting Standards Update (ASU) 2016-13 Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which requires entities to use a forward-looking approach based on expected losses to estimate credit losses on certain types of financial instruments, including trade receivables. The FASB has subsequently issued updates to the standard to provide additional clarification on specific topics. The new standard became effective on January 1, 2023 and did not have a material effect on the financial statements.

Basis of accounting:

The financial statements have been prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Under this method of accounting, revenue is recognized in the period in which it is earned and expenses are recognized in the period in which they are incurred.

Accounts receivable:

Trade accounts receivable are recorded at invoiced amounts, less contractual allowances for trade terms, sales incentive programs and discounts. The Center maintains an allowance for doubtful accounts for estimated losses that will result from the inability of customers to make required payments. The allowance is determined based on review of specific customer accounts where collection is doubtful, as well as an assessment of the collectability of total receivables, which are grouped based on similar risk characteristics, considering historical trends, adjusted for current economic conditions and reasonable and supportable forecasts when appropriate. The allowance represents the current estimate of lifetime expected credit losses for all outstanding accounts receivable and reflects the Center's ongoing evaluation of collectability, customer creditworthiness, historical levels of credit losses and future expectations. Receivables are written off against the allowance when it is determined that the amounts will not be recovered. At June 30, 2024 and 2023, and July 1, 2022, accounts receivable, net totaled $3,227,748, $2,050,192, and $1,776,042, respectively.

Grants receivable:

Grants receivable represent amounts awarded by various state and federal agencies but not yet received. Amounts are recorded when awarded and are based on budgets submitted by the Center for specific projects and programs. Once the Center has incurred the expenditures necessary to meet the requirements of the grant awards, the funds are requested for reimbursement from the various state and federal agencies.

See Independent Auditor's Report. Notes continued on next page.

Note 1. Nature of Activities and Significant Accounting Policies (continued)

Inventory:

Inventory is stated a the lower of cost or net realizable value using the first-in, first-out method.

Property and equipment:

Property and equipment is stated at cost, if purchased, and at estimated or market value, if donated, less accumulated depreciation. Maintenance and repairs are charged to expense as incurred; major improvements and renewals are capitalized. Depreciation is provided using the straight-line method over the following estimated useful lives of the assets. Estimated useful lives ranges from 2 to 20 years for equipment, furniture and fixtures, 4 to 15 years for vehicles, and 5 to 20 years for leasehold improvements.

Impairment of long-lived assets:

Management reviews long-lived assets for impairment when circumstances indicate the carrying amount of an asset may not be recoverable based on the undiscounted future cash flows of the asset. If the carrying amount of an asset may not be recoverable, a write-down to fair value is recorded. Fair values are determined based on the discounted cash flows, quoted market values, or external appraisals, as applicable. Long-lived assets are reviewed for impairment at the individual asset or the asset group level for which the lowest level of independent cash flows can be identified.

Leases:

The Center leases various pieces of office equipment and facilities. The determination of whether an arrangement is a lease is made at inception. Under ASC 842, a contract is (or contains) a lease if it conveys the right to control the use of an identified asset for a period in exchange for consideration. Control is defined under the standard as having both the right to obtain substantially all of the economic benefits from use of the asset and the right to direct the use of the asset. Management only reassesses its determination if the terms and conditions of the contract are changed.

Operating leases are included in right-of-use (ROU) assets and operating lease liabilities on the accompanying statement of financial position as of June 30, 2024.

ROU assets represent the right to use an underlying asset for the lease term, and lease liabilities represent the obligation to make lease payments. Operating lease ROU assets and liabilities are recognized at the lease commencement date based on the present value of lease payments over the lease term. The Center uses the implicit rate when it is readily determinable. Since the Center's leases do not provide an implicit rate, to determine the present value of lease payments, management uses the risk free discount rate, according to the Center's elected policy. Operating lease ROU assets also include any lease payments made and exclude any lease incentives. Lease expense for operating lease payments is recognized on a straight-line basis over the lease term. The Center's lease terms may include options to extend or terminate the lease when it is reasonably certain that they will exercise the option.

See Independent Auditor's Report. Notes continued on next page.

Note 1. Nature of Activities and Significant Accounting Policies (continued)

Net assets:

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

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.

Net Assets With Donor Restrictions – Net assets subject to donor (or certain grantor) 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. Other donor imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. The Center reports contributions restricted by donors as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) 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 in the statements of activities as net assets released from restrictions. The Center has no net assets with donor restrictions as of June 30, 2024 and 2023.

Revenue and revenue recognition:

Net patient service fee revenue:

The Center is approved as a Federally Qualified Health Center (FQHC) for both Medicare and Medicaid reimbursement purposes. The Center has agreements with third-party payers that provide for payments to the Center at amounts different from its established rates.

Medicare – Covered FQHC services rendered to Medicare program beneficiaries are paid based on a cost reimbursement methodology. The Center is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of an annual cost report by the Center and audit thereof by the Medicare fiscal intermediary.

Medicaid – FQHC services rendered to Medicaid program beneficiaries are paid based on a prospective reimbursement methodology. The Center is reimbursed a set encounter rate for all services under this plan.

<u>Patient service revenue</u>

Patient service revenues are reported at the amount that reflects the consideration to which the Center expects to be entitled in exchange for providing services. These amounts are due from patients, third-party payors (including health insurers and government programs), and others. The Center bills the patients and third party after the services are performed. Revenue is recognized as performance obligations are satisfied.

Performance obligations are satisfied at a point in time based on the nature of the services provided by the Center. Revenue for performance obligations is recognized based on actual charges incurred in relation to total expected (or actual) charges. The Center 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. The Center measures the performance obligation from time of service, to the point when it is no longer required to provide services to that patient.

See Independent Auditor's Report. Notes continued on next page.

Note 1. Nature of Activities and Significant Accounting Policies (continued)

Patient service revenue (continued)

The Center determines the transaction price based on standard charges for goods and services provided, reduced by contractual adjustments provided to third-party payors and implicit price concessions provided to certain categories of patients. The Center determines its estimates of contractual adjustments based on contractual agreements, its policies, and historical experience. The Center determines its estimate of implicit price concessions based on its historical collection experience with each class of patient.

Generally, patients who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. The Center estimates the transaction price for patients with deductibles and coinsurance 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 program fees in the period of the change. 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.

While the Center provides services with the expectation that patients will pay the amount billed, based on historical experience, the Center realizes there is an uncollectible amount related to self-pay patients. Therefore, the Center has determined it has provided implicit price concessions to patients in that pay category and patients with other uninsured balances (for example, copays and deductibles). The implicit price concessions included in estimating the transaction price represent the difference between amounts billed to patients and the amounts the Center expects to collect based on its collection history with those patients.

The Center has elected a practical expedient to not adjust the promised amount of consideration from patients and third-party payors for the effects of a significant financing component due to the 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.

Sliding fee discount program

The Center provides care to patients who meet certain criteria based on official poverty guidelines issued by the U.S. Department of Health and Human Services, under its sliding fee discount program policy. This program reduces the amount that uninsured or under-insured patients must pay for services provided by the Center.

Grant revenue recognition:

Revenue from cost reimbursement grants is recorded to the extent of expenses incurred applicable to the grant or based on the number of encounters times an approved rate depending on the type of contract. Any differences between expenses incurred or amounts earned and the total funds received (not to exceed the grant maximum) are recorded as a payable, receivable, or an advance. Revenue from government grants and contracts designated for use in specific activities is recognized in the period when expenses have been incurred in compliance with the grantor's restrictions. Grants and contracts awarded for the acquisition of long-lived assets are reported as unrestricted non-operating revenue, in the absence of stipulations to the contrary, during the fiscal year in which the assets are acquired. Cash received in excess of revenue recognized is recorded as deferred revenue.

See Independent Auditor's Report. Notes continued on next page.

Note 1. Nature of Activities and Significant Accounting Policies (continued)

In-kind contributions and expenditures:

Donated services for work requiring specialized skills and performed by individuals possessing those skills are valued at rates consistent with regular rates paid for similar work. Donated contractual services are valued at the contractor's normal rates. Donated supplies, materials and rent are valued at their estimated fair market value at the date of receipt. Many individuals volunteer their time to perform a variety of tasks that assist the Center's program services. Volunteer services neither create nor enhance financial assets nor do they require special skills, and thus are not recognized as support in the accompanying statements of activities and changes in net assets.

Advertising:

Advertising costs are expensed as incurred. Total advertising costs totaled $23,954 and $27,783 during the years ended June 30, 2024 and 2023, respectively.

Income taxes:

The Center is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code, except on net income derived from unrelated business activities. Internal Revenue Code Section 513(a) defines an unrelated trade or business of an exempt organization as any trade or business which is not substantially related to the exercise or performance of its exempt purpose. Currently the Center has no obligation for any unrelated business income tax. The Center believes it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements. If there are uncertain and potentially material tax positions identified, the resulting estimated liability, including any related interest and penalties, would be recorded in administrative expenses.

Use of estimates in the preparation of financial statements:

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 revenue and expenses during the reported period. Actual results could differ from those estimates.

Functional allocation of expenses:

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited. The expenses that are allocated include occupancy, and depreciation, which are allocated on a square footage basis, as well as salaries and wages, benefits, payroll taxes, professional services, office expenses, information technology, interest, insurance, and other, which are allocated based on estimates of time and effort. The amounts are determined based on management's estimates of each expense account's relation to the functional activities. Expenses which can be directly associated with a function are charged directly to that function.

Summarized financial statement information:

The financial statements include certain prior year summarized comparative information in total but not by functional expense classifications. Such information does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the Center's financial statements for the year ended June 30, 2023, from which the summarized information was derived.

See Independent Auditor's Report. Notes continued on next page.

Note 2. Information Regarding Liquidity and Availability

The Center strives to maintain liquid financial assets sufficient to cover 90 days of general expenditures. The Center's Board of Directors meet monthly to provide financial and budgetary oversight. Additionally, in December 2023 the Center opened a $1,000,000 line of credit (Note 5). The Center had $31,812 available on the line of credit as of June 30, 2024. During 2023, the Center had a $250,000 line of credit (Note 5). The Center had $5,000 available on the line of credit as of June 30, 2023. The following table reflects the Center's financial assets as of June 30:

		2024		2023
Cash	**$**	**815,589**	$	623,249
Accounts receivable, net		**3,227,748**		2,050,192
Grants receivable		**16,360**		-
Total financial assets available to meet cash needs for general expenditures within one year	**$**	**4,059,697**	$	2,673,441

Note 3. Note Receivable

During 2021, the Center loaned $240,000 to the developer of its new facility. The principal amount of this note bears interest at a rate of 7%; payable in monthly installments of interest only for 36 months; principal and any outstanding interest are due upon maturity of the note in October 2023. Under the terms of the note agreement, the developer also agrees to provide the Center an annual rent reduction for two consecutive years, equal to 15% of the then calculated annual project cash flow based on the facility lease agreement. At June 30, 2024 and 2023, principal of $240,000 and interest of $49,000 and $43,400, respectively, are outstanding.

Note 4. Property and Equipment

Property and equipment consisted of the following as of June 30:

		2024		2023
Equipment, furniture and fixtures	**$**	**3,319,225**	$	2,705,391
Construction in progress		**63,888**		1,385,736
Vehicles		**1,006,344**		1,006,344
Leasehold improvements		**2,631,363**		1,352,793
		7,020,820		6,450,264
Less accumulated depreciation		**2,398,197**		1,903,857
	$	**4,622,623**	$	4,546,407

See Independent Auditor's Report. Notes continued on next page.

Note 5. Line of Credit

During December 2023, The Center entered into a variable rate revolving line of credit with Truist totaling $1,000,000 with monthly payments of interest only at the lender's prime rate plus 0.5%. The line is collateralized by substantially all business assets owned by the Center. The line of credit matured during November 2024 but was extended to May 30, 2025 subsequently. As of June 30, 2024, $968,188 was outstanding on the line of credit.

The Center had a variable rate non-disclosable revolving line of credit with TowneBank totaling $250,000 with monthly payments of interest only at the Wall Street Journal Prime Rate plus 1% with a floor of 8% (9.25% at June 30, 2023). At June 30, 2023, $245,000 was outstanding on the line of credit. The line of credit was closed during the year ended June 30, 2024.

Note 6. Note Payable

During 2022, the Center obtained an unsecured note payable for $542,247 to purchase equipment from Southern Bank. The note consists of 120 monthly payments of $5,375, including principal and interest at 3.5%. All outstanding principal and interest are due and payable on or before March 2032. The note payable is subject to a prepayment penalty. At June 30, 2024 and 2023, $431,389 and $494,132 was outstanding, respectively.

Principal payments required for long-term debt over the next five years and thereafter are as follows:

2025	$ 49,817
2026	51,614
2027	53,476
2028	55,380
2029	57402
Thereafter	163,700
	$ 431,389

Note 7. Federal Financial Assistance

The Center receives part of its revenue from a grant administered by the Public Health Service of the Department of Health and Human Services (HHS). The purpose of the grant is to provide the funds to operate a community health center for the medically underserved population of Portsmouth, Virginia and surrounding areas. The Center recognized financial assistance from HHS, which represents 35% and 40% of the Center's total support and revenue for 2024 and 2023, respectively. If a significant reduction in the level of support were to occur, this would affect the Center's future programs and activities.

The grant is subject to audit by various federal agencies. Federal audits performed to date have not resulted in material adjustments and, in management's opinion, future audits will not have a material adverse effect upon the financial position of the Center.

The Center has also received certain grant funds from the U.S. government for the purchase of equipment. The grants provide that should such equipment be disposed of, a portion of any proceeds may need to be refunded to the U.S. government.

Note 8. Retirement Plan

The Center adopted a 401(k) retirement plan for the benefit of substantially all employees who meet age and service requirements. The Center elected "safe harbor" which provides for a 3% contribution and an additional 50% matching contribution on an employee's contribution of 5% or less. The Center may also make a discretionary contribution to the plan. Contributions totaling $92,419 and $105,706 were made to the 401(k) plan for 2024 and 2023, respectively.

Note 9. Related Party Transactions

The Center receives an incentive management fee from a related party based on the performance of the Center compared to other health centers in Virginia. Incentive management fees received during the years ended June 30, 2024 and 2023 totaled $414,235 and $268,289, respectively, and are included in net patient services revenue on the accompanying statements of activities. During 2024, the Center did not receive a dividend from the related party. During 2023, the Center received a dividend totaling $34,200 from the related party.

Note 10. Leases

The Center has operating leases for office equipment and facilities. The following summarizes the weighted average remaining lease term and discount rate at June 30, 2024:

Weighted average remaining lease term	
Operating leases	16 years
Weighted average discount rate	
Operating leases	4.00%

The maturities of operating lease liabilities at June 30, 2024 are as follows:

2025	$	**1,391,760**
2026		**1,425,524**
2027		**1,456,278**
2028		**1,461,899**
2029		**1,385,482**
Thereafter		**13,822,163**
Total lease payments		**20,943,106**
Less: amounts representing interest		**5,578,450**
Present value of lease liabilities		**15,364,656**
Less: current portion of lease obligation		**1,391,760**
Present value of lease liabilities, less current portion	$	**13,972,896**

Note 10. Leases (continued)

The following summarizes the line items in the statement of activities which include the components of lease expense for the year ended June 30, 2024:

Operating lease expense included in rents and lease expenses	**$ 1,544,841**

The following summarizes cash flow information related to leases for the year ended June 30, 2024:

Operating cash outflows from operating leases	**$ 1,385,135**

Note 11. In-Kind Donations

The Center received the following gifts-in-kind during the years ended June 30:

	2024	2023
Rent	**$ 38,053**	$ 38,053
Clinical supplies	**26,557**	-
	$ 64,610	$ 38,053

The Center's policy related to gifts-in-kind is to utilize the assets given to carry out the mission of the Center. If an asset is provided that does not allow the Center to utilize it in its normal course of business, the asset will be sold at its fair market value as determined by appraisal or specialist depending on the type of asset.

The Center received donated rent for various facilities leased to the Center. The estimated fair rental value of the facilities was $38,053 for each of the years ended June 30, 2024 and 2023, and is included in in-kind services, supplies, and rents and rents and leases expense in the accompanying statements of activities.

The Center received donated clinical supplies with a total estimated fair market value of $26,557 for the year ended June 30, 2024. The Center did not receive donated clinical supplies for the year ended June 30, 2023. Donated clinical supplies are included in in-kind services, supplies, and rents and supplies expense in the accompanying statements of activities.

All gifts-in-kind received by the Center for the years ended June 30, 2024 and 2023 were considered without donor restrictions and able to be used by the Center as determined by the Board of Directors and management.

Note 12. 340B Contract Pharmacy Services

The Center has entered into various agreements with pharmacies to manage and dispense medications pursuant to the Center's 340B drug program in accordance with Section 340B of the Public Health Services Act. As part of these agreements, the Center has certain responsibilities including, but not limited to, performing eligibility verification, completing of orders and payments to pharmaceutical suppliers. The pharmacies' responsibilities include, but are not limited to, providing 340B pharmacy services, performing inventory maintenance services, maintaining an electronic tracking system that is capable of tracking 340B drugs and performing quarterly reconciliation of 340B drugs. For the years ended June 30, 2024 and 2023, reimbursements related to the 340B drug program amount, net of related expenses, totaled $344,233 and $904,238, respectively.

See Independent Auditor's Report. Notes continued on next page.

Note 13. Contingencies

Governmental grants:

The Center relies heavily upon grants and contributions to support its operations serving under-insured or underprivileged individuals. The Center could be adversely affected should one or more of its grants be terminated or awarded to another organization. Governmental grants are also subject to compliance audits and reviews and may be subject to funding delays. Accordingly, any findings or questioned costs are subject to review by the awarding agency and are potentially subject to disallowance or adjustment. Although management allows for all known or anticipated unallowable costs, no assurances can be given regarding the potential impact of any disallowance or adjustment upon the Center.

Operational contingencies:

The Center is insured under Section 224 of the Public Health Act, as amended by the Federally Supported Health Centers Assistance Act of 1992 and 1995. Section 224 provides liability protection under the Federal Tort Claims Act for damage for personal injury, including death, resulting from the performance of medical, surgical, dental, and related functions. The coverage is comparable to an occurrence policy and has no monetary cap.

Regulation:

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, and Medicare and Medicaid fraud and abuse. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for services previously billed.

Notice of default:

During October 2023, the Center received a Notice of Default from its landlord claiming the Center has not complied with all lease terms. The Center has disputed the Notice of Default and engaged legal counsel to help resolve the matter. While the ultimate outcome of these matters is not presently determinable, it is the opinion of management that the resolution of outstanding claims will not have a material adverse effect on the financial position or results of operations of the Center.

Note 14. Concentrations

The Center is required to disclose significant concentrations of credit risk regardless of the degree of such risk. Financial instruments which potentially subject the Center to risk consist principally of cash. The Center places its cash with high quality financial institutions that participate in the Federal Deposit Insurance Corporation (FDIC) program. As of June 30, 2024, the Center had funds of $472,785 in excess of the FDIC insured limit.

The Center grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. Significant concentrations under third-party payor agreements as of June 30 include:

	2024	2023
Medicaid	**73%**	**72%**
Medicare	**2%**	**1%**

The Center receives a significant amount of federal assistance. (See Note 7)

Note 15. Subsequent Events

The Center has evaluated subsequent events through January 24, 2025, the date which the financial statements were available to be issued.

PORTSMOUTH COMMUNITY HEALTH CENTER, INC.
(D/B/A HAMPTON ROADS COMMUNITY HEALTH CENTER)

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2024

Federal Grantor/Pass-Through Grantor Program Title	Federal AL Number	Pass-Through Entity Identifying Number	Pass-Through To Subrecipients	Federal Expenditures
U.S. Department of Health and Human Services				
Health Center Program Cluster:				
Health Center Program				
(Community Health Centers, Migrant Health Centers, Health Care for the Homeless, and Public Housing Primary Care)	93.224	-	$ -	$ 4,372,970
Grants for New and Expanded Services Under the Health Center Program	93.527	-	-	13,995
COVID-19: Health Center Program (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, and Public Housing Primary Care)	93.224		-	1,053,914
Total Health Centers Cluster			-	5,440,879
Grants for Capital Development in Health Centers	93.526	-	-	22,010
Passthrough from City of Norfolk:				
HIV Emergency Relief Project Grants (Ryan White HIV/AIDS Program Part A)	93.914	-	-	273,054
Total U.S. Department of Health and Human Services			-	5,735,943
Total expenditure of federal awards			$ -	$ 5,735,943

See Independent Auditor's Report and Notes to Schedule of Expenditures of Federal Awards.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2024

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of **Portsmouth Community Health Center, Inc. (d/b/a Hampton Roads Community Health Center)** (the Center) under programs of the federal government for the year ended June 30, 2024. 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 Center, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Center.

Note 2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles contained in OMB Circular A-122, *Cost Principles for Nonprofit Organizations,* or the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note 3. Indirect Cost Rate

The Center has not elected to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

Note 4. Pass-Through State and City Agencies

Expenditures of federal awards for funds based through state and city agencies are based on information provided by the respective agencies. Pass-through entity identifying numbers are presented where available.

WALL
EINHORN &
CHERNITZER
CPAs & ADVISORS

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Portsmouth Community Health Center, Inc.
(d/b/a Hampton Roads Community Health Center)
Portsmouth, Virginia

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 financial statements of **Portsmouth Community Health Center, Inc. (d/b/a Hampton Roads Community Health Center)** (the Center), which comprise the statement of financial position as of June 30, 2024, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements and have issued our report thereon dated January 24, 2025.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Center's internal control over financial reporting (internal control) as a basis for designing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Center's internal control. Accordingly, we do not express an opinion on the effectiveness of the Center'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 Center's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

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Report on Compliance and Other Matters

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

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

Wall, Einhorn + Chernitzer, P.C.

Norfolk, Virginia
January 24, 2025

WALL
EINHORN &
CHERNITZER
CPAs & ADVISORS

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND
REPORT ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH THE UNIFORM GUIDANCE**

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Portsmouth Community Health Center, Inc.
(d/b/a Hampton Roads Community Health Center)
Portsmouth, Virginia

Report on Compliance for Each Major Program

Opinion on Each Major Federal Program

We have audited **Portsmouth Community Health Center, Inc. (d/b/a Hampton Roads Community Health Center)'s** (the Center) compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on the Center's major federal program for the year ended June 30, 2024. The Center's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Center complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2024.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); 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). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Center and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the Center's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the Center's federal program.

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Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Center's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Center's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Center's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Center's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 the Center's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on 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 Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

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Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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.

Wall, Einhorn + Chernitzer, P.C.

Norfolk, Virginia
January 24, 2025

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2024

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued on whether the financial statements audited were prepared in accordance with GAAP:	unmodified			
Internal control over financial reporting:				
Material weakness(es) identified?		Yes	X	No
Significant deficiency(ies) identified?		Yes	X	None Reported
Noncompliance material to financial statements noted?		Yes	X	No

Federal Awards

Internal control over major programs:				
Material weakness(es) identified?		Yes	X	No
Significant deficiency(ies) identified?		Yes	X	None Reported
Type of auditor's report issued on compliance for major programs:	unmodified			
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?		Yes	X	No

Identification of major federal programs:

Assistance Listing Number(s)	Name of Federal Program or Cluster
93.224, 93.527	Health Center Program Cluster

Dollar threshold used to distinguish between type A and type B programs:			$ 750,000	
Auditee qualified as low-risk auditee?		Yes	X	No

II. FINANCIAL STATEMENT FINDINGS

No matters were reported.

III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.

See Independent Auditor's Report.

PORTSMOUTH COMMUNITY HEALTH CENTER, INC.
(D/B/A HAMPTON ROADS COMMUNITY HEALTH CENTER)

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

June 30, 2024

Audit Finding Reference:	2023-001
Status of Prior Finding:	Planned corrective action completed this fiscal year.