



**NORTHWOOD HEALTH SYSTEMS, INC.
AND SUBSIDIARIES**

WHEELING, WEST VIRGINIA

**CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020**

Goff
Backa
Alfera &
Company, LLC

Certified Public Accountants

NORTHWOOD HEALTH SYSTEMS, INC. AND SUBSIDIARIES
TABLE OF CONTENTS
JUNE 30, 2021 AND 2020

Independent Auditor’s Report.....1 – 3

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Balance Sheets4 – 5

Consolidated Statements of Revenues, Support and Expenses and Changes in Net Assets...6 – 7

Consolidated Statements of Functional Expenses8 – 9

Consolidated Statements of Cash Flows.....10

Notes to Consolidated Financial Statements.....11 – 26

SUPPLEMENTARY INFORMATION – UNIFORM GUIDANCE

Schedule of Expenditures of Federal Awards.....27

Schedule of Expenditures of State Awards.....28

REPORT IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Independent Auditor’s 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*29 – 30

Schedule of Findings and Responses.....31

REPORT ON COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Independent Auditor’s Report on Compliance for Each Major Federal Program and
Report on Internal Control over Compliance In Accordance with Uniform Guidance.....32 – 33

Schedule of Findings and Questioned Costs.....34

Summary Schedule of Prior Audit Findings.....35

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Northwood Health Systems, Inc. and Subsidiaries:

Report on the Financial Statements

We have audited the accompanying financial statements of Northwood Health Systems, Inc. and its subsidiaries, which comprise the consolidated balance sheets as of June 30, 2021 and 2020, and the related consolidated statements of revenues, support and expenses and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Northwood Health Systems, Inc. and its subsidiaries as of June 30, 2021 and 2020, and the 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.

Emphasis of Matter

As discussed in Note 28 to the financial statements, the 2020 financial statements have been restated to correct a misstatement. Our opinion is not modified with respect to this matter.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards, 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 schedule of expenditures of state awards, as required by West Virginia Code Section 12-4-14, are presented for purposes of additional analysis and are not required parts of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 1, 2021, on our consideration of Northwood Health Systems, Inc. and Subsidiaries' internal control over financial reporting and on our tests of their 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 Northwood Health Systems, Inc. and Subsidiaries' 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 Northwood Health Systems, Inc. and Subsidiaries' internal control over financial reporting and compliance.

Goff Backa Alfera & Company, LLC

Goff Backa Alfera & Company, LLC
Pittsburgh, Pennsylvania
November 1, 2021

NORTHWOOD HEALTH SYSTEMS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
JUNE 30, 2021 AND 2020

	<u>2021</u>	<u>2020</u> <u>(Restated)</u>
<u>ASSETS</u>		
Current Assets:		
Cash and cash equivalents	\$ 2,595,640	\$ 3,964,847
Accounts receivable		
Contracts receivable from State	523,156	409,136
From patients, net of allowances (doubtful accounts and contractual of \$56,090 in 2021 and \$35,448 in 2020)	2,100,224	2,772,585
Accounts receivable- joint venture	565,452	553,770
Other	81,262	33,895
Investments	5,098,143	1,576,766
Other assets	865,106	346,392
Total current assets	<u>11,828,983</u>	<u>9,657,391</u>
HUD restricted deposits	<u>160,003</u>	<u>139,135</u>
Property and equipment at cost, net of accumulated depreciation of \$5,787,155 in 2021 and \$8,215,157 in 2020	<u>13,112,257</u>	<u>3,604,352</u>
Noncurrent Assets:		
Board designated funds - Cash	4,864,231	5,000,000
Board designated funds - Investments	2,152,025	5,000,000
Total board designated funds	<u>7,016,256</u>	<u>10,000,000</u>
Other assets	1,047,091	670,881
Total noncurrent assets	<u>8,063,347</u>	<u>10,670,881</u>
TOTAL ASSETS	<u><u>\$ 33,164,590</u></u>	<u><u>\$ 24,071,759</u></u>

NORTHWOOD HEALTH SYSTEMS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
JUNE 30, 2021 AND 2020

	2021	2020 (Restated)
	<hr/>	<hr/>
<u>LIABILITIES AND NET ASSETS</u>		
Current Liabilities:		
Accounts payable and other current liabilities	\$ 1,952,332	\$ 2,198,476
Provider taxes payable	19,820	19,572
Accrued salaries and payroll taxes	1,129,987	651,506
Accrued sick leave	1,413	1,413
Notes payable current portion	37,625	34,614
Total current liabilities	<hr/> 3,141,177	<hr/> 2,905,581
Long-Term Liabilities:		
Accrued liabilities	1,279,655	1,128,780
Notes payable, net of current portion	6,231,843	509,449
Total liabilities	<hr/> 10,652,675	<hr/> 4,543,810
Net Assets:		
Net assets without donor restrictions	15,071,783	9,075,172
Net assets without donor restrictions - Board designated	7,016,256	10,000,000
Total net assets without donor restrictions	<hr/> 22,088,039	<hr/> 19,075,172
Net assets with donor restrictions	423,876	452,777
Total net assets	<hr/> 22,511,915	<hr/> 19,527,949
TOTAL LIABILITIES AND NET ASSETS	<hr/> \$ 33,164,590	<hr/> \$ 24,071,759

NORTHWOOD HEALTH SYSTEMS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF REVENUES, SUPPORT AND EXPENSES
AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

	<u>2021</u>	<u>2020</u> (Restated)
<u>CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS:</u>		
Revenue:		
Client services	\$ 25,637,012	\$ 25,260,920
Rental revenues	403,912	402,296
Less - Provision for allowances and discounts	<u>(2,133,908)</u>	<u>(2,215,769)</u>
Total fees for services	<u>23,907,016</u>	<u>23,447,447</u>
Support:		
Federal funds	1,278,756	535,955
State funds	3,204,814	3,170,380
Other federal, state, county and local agencies	<u>153,942</u>	<u>49,535</u>
Total support	<u>4,637,512</u>	<u>3,755,870</u>
 Total revenue and support	 <u>28,544,528</u>	 <u>27,203,317</u>
Operating Expenses		
Program costs	21,255,276	20,997,583
Management and general costs	<u>3,324,454</u>	<u>3,578,564</u>
Total operating expenses	<u>24,579,730</u>	<u>24,576,147</u>
 Increase (Decrease) in net assets from operations	 <u>3,964,798</u>	 <u>2,627,170</u>
Non-operating and non-recurring revenues (expenses):		
Other revenue - non-recurring	1,233,412	1,544,213
Unrealized gain (loss) on investments	546,929	61,521
Realized gain (loss) on investments	101,510	83,998
Gain (loss) on sale of fixed assets	63,157	27,452
Interest and dividend income	136,031	182,543
Charitable donations costs	(3,061,647)	(73,687)
Miscellaneous and other revenue (expense)	(224)	7,344
Net assets released from restrictions:		
Restrictions satisfied by passage of time	<u>28,901</u>	<u>28,901</u>
Total non-operating and non-recurring revenues (expenses)	<u>(951,931)</u>	<u>1,862,285</u>
 Increase (Decrease) in net assets without donor restrictions	 <u>3,012,867</u>	 <u>4,489,455</u>

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

NORTHWOOD HEALTH SYSTEMS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF REVENUES, SUPPORT AND EXPENSES
AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

	2021	2020 (Restated)
	<hr/>	<hr/>
<u>CHANGES IN NET ASSETS WITH DONOR RESTRICTIONS:</u>		
Net assets released from restrictions:		
Restrictions satisfied by passage of time	<u>(28,901)</u>	<u>(28,901)</u>
Increase (decrease) in net assets with donor restrictions	<u>(28,901)</u>	<u>(28,901)</u>
Increase (decrease) in net assets	2,983,966	4,460,554
<u>TOTAL NET ASSETS, BEGINNING OF YEAR</u>		
As previously reported	19,527,949	15,434,853
Prior period adjustment	-	(367,458)
<u>TOTAL NET ASSETS, BEGINNING OF YEAR, AS RESTATED</u>	<u>19,527,949</u>	<u>15,067,395</u>
<u>TOTAL NET ASSETS, END OF YEAR</u>	<u>\$ 22,511,915</u>	<u>\$ 19,527,949</u>

NORTHWOOD HEALTH SYSTEMS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2021

	Program Costs	Management and General Costs	Total
Salaries and wages	\$ 12,901,093	\$ 1,402,215	\$ 14,303,308
Employee benefits	4,849,837	575,273	5,425,110
Contracted services	634,436	386,536	1,020,972
Transportation	210,208	31,085	241,293
Taxes	304,544	55,181	359,725
Other	2,076,933	819,022	2,895,955
Depreciation and amortization	278,225	55,142	333,367
	<u>\$ 21,255,276</u>	<u>\$ 3,324,454</u>	<u>\$ 24,579,730</u>

NORTHWOOD HEALTH SYSTEMS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2020
(RESTATED)

	Program Costs	Management and General Costs	Total
	<u> </u>	<u> </u>	<u> </u>
Salaries and wages	\$ 12,609,714	\$ 1,494,818	\$ 14,104,532
Employee benefits	4,848,520	501,279	5,349,799
Contracted services	684,633	698,982	1,383,615
Transportation	289,960	30,548	320,508
Taxes	312,383	57,435	369,818
Other	1,959,878	737,118	2,696,996
Depreciation and amortization	292,495	58,384	350,879
	<u>\$ 20,997,583</u>	<u>\$ 3,578,564</u>	<u>\$ 24,576,147</u>

NORTHWOOD HEALTH SYSTEMS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

	<u>2021</u>	<u>2020</u> <u>(Restated)</u>
Cash flows from operating activities:		
Increase (decrease) in net assets	\$ 2,983,966	\$ 4,460,554
Adjustments to reconcile increase (decrease) in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization	333,367	350,879
Bad debt expense	60,569	13,495
Investment (gains) losses	(648,439)	(145,519)
(Gain) loss on disposal of fixed assets	(63,157)	(27,452)
Changes in assets and liabilities:		
(Increase) decrease in receivables	438,723	(526,463)
(Increase) decrease in inventory and other assets	(518,714)	151,232
Increase (decrease) in accounts payable and other accrued liabilities	(246,144)	969,401
Increase (decrease) in provider taxes payable	248	474
Increase (decrease) in accrued salaries and payroll taxes	478,481	40,852
Increase (decrease) in accrued sick leave	-	(69)
Increase (decrease) in accrued liabilities	150,875	384,675
Net cash provided (used) by operating activities	<u>2,969,775</u>	<u>5,672,059</u>
Cash flow from investing activities:		
(Purchase) of property and equipment	(9,841,272)	(974,773)
Proceeds from disposal of property and equipment	63,157	29,451
(Increase) decrease in other non current assets	(376,210)	323,350
(Purchase) of securities	(1,181,872)	(1,678,289)
Proceeds from sales of securities	1,156,909	1,561,333
Net cash provided (used) by investing activities	<u>(10,179,288)</u>	<u>(738,928)</u>
Cash flow from financing activities:		
(Payments) of long-term debt	(34,595)	(31,820)
Proceeds from notes payable	5,760,000	-
Net cash provided (used) by financing activities	<u>5,725,405</u>	<u>(31,820)</u>
Net increase (decrease) in cash, cash equivalents and restricted cash	(1,484,108)	4,901,311
Cash, cash equivalents and restricted cash, beginning of year	9,103,982	4,202,671
Cash, cash equivalents and restricted cash, end of year	<u>\$ 7,619,874</u>	<u>\$ 9,103,982</u>
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	<u>\$ 44,016</u>	<u>\$ 46,810</u>
Income taxes	<u>\$ -</u>	<u>\$ -</u>

NORTHWOOD HEALTH SYSTEMS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

NOTE 1: GENERAL

The consolidated financial statements as of June 30, 2021 and 2020 include the accounts of Northwood Health Systems, Inc. and its wholly-owned subsidiaries or controlled affiliates (Subsidiaries): Mid Valley Health Care, Inc., Tucker Rehabilitation, Inc., Ash Grove, Inc. and Larkin, Inc. Mid Valley Health Care Inc. was dissolved as a separate entity on November 11, 2019 and their entire operations are now included under the Northwood Health Systems, Inc. name. Intercompany transactions and balances have been eliminated for reporting purposes.

Northern Panhandle Mental Health Center, Inc. was incorporated in West Virginia as a not-for-profit corporation on October 31, 1967 and it commenced operations in May 1974. The Center's name was changed to the Northern Panhandle Behavioral Health Center, Inc., during the fiscal year ended June 30, 1982 and then to Northwood Health Systems, Inc. ("Northwood"), during the year ended June 30, 1992.

Northwood is organized exclusively for charitable, religious, educational and scientific purposes, including operating a comprehensive mental health center, primarily to serve the residents of Ohio, Marshall, Brooke, Hancock, and Wetzel counties in West Virginia, and also the residents of surrounding areas. In providing these services, Northwood is dependent upon a variety of payers for revenue and support, including federal and state agencies, insurance companies and individuals.

Tucker Rehabilitation, Inc. was incorporated in West Virginia as a not-for-profit corporation on May 11, 1987 to operate a 20-unit apartment project in Wheeling, West Virginia. The Project is funded under Section 202 of the National Housing Act and regulated by the U.S. Department of Housing and Urban Development (HUD) with respect to rental charges and operating methods. The Project's major program is its Section 202 direct loan. The Project is also subject to a Section 8 Housing Assistance Payments agreement with the U.S. Department of Housing and Urban Development (HUD), and a significant portion of the Project's rental income is received from HUD. The Project's non-major program is its Section 8 rent subsidy.

Larkin, Inc. was incorporated in West Virginia as a not-for-profit corporation on July 24, 1992 to operate a 10-unit apartment project in Wheeling, West Virginia. The Project is funded under Section 811 of the National Affordable Housing Act and regulated by the U.S. Department of Housing and Urban Development (HUD) with respect to rental charges and operating methods. The Project's major program is its Section 811 Capital Advance and Project Rental Assistance.

Ash Grove, Inc. was incorporated in West Virginia as a not-for-profit corporation on September 9, 1997 to operate an 8-unit apartment project in Moundsville, West Virginia. The project is funded under Section 811 of the National Affordable Housing Act and regulated by the U.S. Department of Housing and Urban Development (HUD) with respect to rental charges and operating methods. The Project is also subject to a Project Rental Assistance Agreement with the U.S. Department of Housing and Urban Development (HUD), and a significant portion of the Project's rental income is received from HUD.

NORTHWOOD HEALTH SYSTEMS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES

(A) Basis of Accounting

Northwood Health Systems, Inc. and Subsidiaries prepares its financial statements using the accrual basis of accounting and in accordance with accounting principles generally accepted in the United States of America.

(B) Financial Statement Presentation

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

Net assets without donor restrictions – Net assets that are not subject to donor-imposed stipulations.

Net assets with donor restrictions – A donor stipulation that specifies a use for a contributed asset that is more specific than broad limits resulting from the following:

The nature of the not-for-profit entity, the environment in which it operates and purposes specified in its articles of incorporation or bylaws or comparable documents for an unincorporated association.

Some donors impose restrictions that are temporary in nature, for example, stipulating that resources be used after a specified date, for particular programs or services, or to acquire buildings or equipment. Other donors impose restrictions that are perpetual in nature, for example, stipulating that resources be maintained in perpetuity.

Laws may extend those limits to investment returns from those resources and to other enhancements of those resources. Thus, those laws extend donor-imposed restrictions.

(C) Recent Accounting Pronouncements

In 2019, Northwood Health Systems, Inc. adopted FASB Accounting Standards Update (ASU) 2016-14, which requires the Organization to report net assets as net assets with donor restrictions and net assets without donor restrictions, to net investment expenses against investment returns and to provide enhanced disclosures about self-imposed limits on the use of resources, the composition of net assets, liquidity, expenses by both their natural classification and functional classification and methods used to allocate costs among program and support functions. The effect of this change was to reclassify all amounts that the Organization previously reported as “temporarily restricted net assets” as “net assets with donor restrictions” and all amounts that the Organization previously reported as “unrestricted net assets” as “net assets without donor restrictions.”

NORTHWOOD HEALTH SYSTEMS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(C) Recent Accounting Pronouncements (Continued)

In November 2016, the FASB issued ASU No. 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash. The amendments address the presentation of changes in restricted cash and restricted cash equivalents in the statement of cash flow. The new standard is effective for fiscal years beginning after December 15, 2018, with early adoption permitted, and is to be applied retrospectively. The Organization has adopted this standard as of July 1, 2019 and the implementation of the standard did not have a material impact on revenue recognition, operating income or the balance sheet as of June 30, 2021 and 2020 and for the years then ended.

In February 2016, FASB issued ASU No. 2016-02, Leases (ASC 842). The FASB issued subsequent amendments to the initial guidance in September 2017, January 2018, July 2018, and March 2019 within ASU 2017-13, ASU 2018-01, ASU 2018-10, ASU 2018-11, and ASU 2019-01, respectively. ASC 842 supersedes the current accounting for leases. The new standard, while retaining two distinct types of leases, finance and operating, (i) required lessees to record a right of use asset and a related liability for the rights and obligations associated with a lease, regardless of lease classification, and recognize lease expense in a manner similar to current accounting, (ii) eliminates current real estate specific lease provisions, (iii) modifies the lease classification criteria and (iv) aligns many of the underlying lessor model principles with those in the new revenue standard. The new standard is effective for fiscal years beginning after December 15, 2021, with early adoption permitted, and is to be applied retrospectively. The Organization is currently evaluating the effect that implementation of the new standard will have on its financial position, results of operations, and cash flows.

(D) Net Assets with Donor Restrictions

During 2005, Northwood Health Systems, Inc. entered into an Agreement with the Federal Government, Department of Health and Human Services, whereby title of a designated property in Wheeling, West Virginia would be transferred to Northwood to help address the needs of the homeless population. The property was transferred during 2006 and recorded as a contribution and fixed asset at its fair market value in the amount of \$867,025. The use of the property is restricted to help address the needs of the homeless population, and may not be re-sold, mortgaged, or leased for thirty years. The property will be released from restrictions and be reclassified as net assets without donor restrictions on a straight-line basis over thirty years. During 2021 and 2020, \$28,901 and \$28,901, respectively, was released from restrictions leaving a balance of \$423,876 and \$452,777, respectively, in net assets with donor restrictions as of June 30, 2021 and 2020.

NORTHWOOD HEALTH SYSTEMS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(E) Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from these estimates. The most significant estimates contained in the financial statements include the estimated useful lives of property and equipment, the allowance for doubtful accounts, and self-insured health care expenses. It is at least reasonably possible that those estimates will change in the near term.

(F) Reclassifications

It is the policy of the Organization to reclassify prior year amounts for classifications adopted in the current year. During 2021, the Organization reclassified the 2020 Indigent Care grant income to state funds support. These funds were previously reported as client services revenue.

(G) Revenue and Receivables

Northwood's policy is to charge for services at standard billing rates and to record sliding fee adjustments and contractual allowances as a deduction from revenue. Accordingly, accounts receivable as of June 30, 2021 and 2020 have been reduced by such allowances.

(H) Property and Equipment

Northwood leases certain facilities and vehicles. The costs of operating these possessions are reflected in their natural expense categories. All other property and equipment is recorded on the books at cost if purchased or fair value as of the date of donation, and is being depreciated on a straight-line basis over estimated useful lives as follows:

Buildings and improvements - 5 to 30 years

Equipment and furniture - 3 to 10 years

Vehicles - 5 to 8 years

Related amortization expense is included in depreciation and amortization expense. It is the policy of Northwood to capitalize assets acquired costing \$3,000 or more and having a useful life greater than one accounting period. The Organization reviews its investment in real estate for impairment whenever events or changes in circumstances indicate that the carrying value of such property may not be recoverable. There were no impairment losses recognized in 2021 or 2020.

NORTHWOOD HEALTH SYSTEMS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(I) Cash and Cash Equivalents

For purposes of the statements of cash flows, Northwood considers all unrestricted investments with an original maturity of three months or less, including investments in money market funds and treasury bills to be cash equivalents. Cash equivalents are stated at cost, which approximates market.

(J) Contributions

Contributions are normally received in the form of cash, are recorded when received and are usually not material. See Note 29 regarding a contribution to be received in fiscal 2022.

(K) Advertising

The Organization uses advertising to promote its programs among the audiences it serves. Advertising costs are expensed as incurred. Advertising expense for the years ended June 30, 2021 and 2020 was \$138,172 and \$197,708 respectively.

(L) Distributions

Tucker Rehabilitation, Inc., Larkin, Inc. and Ash Grove, Inc. (The Projects) are all governed by a regulatory agreement with HUD stipulating, among other things, that the Project will not make distributions of assets or income to any of its officers or directors. There were no distributions made during the year ended June 30, 2021.

(M) Revenue Recognition – Tenant Revenue

Effective July 1, 2019, the Projects have adopted the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, “Revenue for Contracts with Customers,” and a series of amendments which together hereinafter are referred to as “ASC Topic 606” using the modified retrospective approach.

The new standard outlines a single comprehensive model for entities to use in accounting for revenues arising from contracts with customers (tenants). Central to the new revenue recognitions framework is a five-step revenue recognition model that requires reporting entities to:

1. Identify the contract;
2. Identify the performance obligations of the contract;
3. Determine the transaction price of the contract;
4. Allocate the transaction price to the performance obligations, and;
5. Recognize revenue.

Each rental property is generally leased to tenants under a one-year non-canceling operating lease. Rental revenue is recognized on a straight-line basis over the terms of the leases net of provision for uncollectible amounts. The Projects believe that the adoption of ASU 2014-09 had no material effect on revenue recognition, operating income or their statement of financial position as of June 30, 2021 and 2020 and for the years then ended.

NORTHWOOD HEALTH SYSTEMS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(N) Consideration of Subsequent Events

On January 30, 2020, the World Health Organization (“WHO”) announced a global health emergency in response to a new strain of coronavirus (the “COVID-19 outbreak”). In March 2020, the WHO classified that COVID-19 outbreak as a pandemic based on the rapid increase in exposure globally. The full impact of the COVID-19 outbreak continues to evolve as of the date of this report. Management is actively monitoring the global situation and its effect on the Organization’s industry, financial condition, liquidity, and operations. Given the daily evolution of the COVID-19 outbreak and the global responses to curb its spread, the Organization is not able to estimate the effects of the COVID-19 outbreak on its results of operations, financial condition, or liquidity for the fiscal year 2022. However, if the pandemic continues, it may have a material adverse effect on the Organization’s results of future operations, financial position, and liquidity in the fiscal year 2022.

NOTE 3: TAX STATUS

Northwood Health Systems, Inc. and its Subsidiaries are exempt from federal income tax under sections 501(c)(3) and 501(c)(4) of the Internal Revenue Code. However, the following taxes were paid to the State of West Virginia and various other taxing authorities:

	<u>2021</u>	<u>2020</u>
West Virginia Provider Taxes	\$ 240,392	\$ 243,688
Licenses and Taxes	8,592	13,185
Sales and Use Taxes	83,770	74,665
Other Taxes	<u>27,267</u>	<u>38,280</u>
Total Taxes	<u>\$ 360,021</u>	<u>\$ 369,818</u>

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Organization and recognize a tax liability (or asset) if the Organization has taken an uncertain position that more likely than not would not be sustained upon examination by the IRS. Management has analyzed the tax positions taken by the Organization, and has concluded that as of June 30, 2021, there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements. The Organization is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. The Organization’s Federal Return of Organization Exempt from Income Tax (Form 990) for tax years 2018, 2019, and 2020 are subject to examination by the IRS, generally for three years after they were filed.

NORTHWOOD HEALTH SYSTEMS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

NOTE 4: NOTES PAYABLE

Tucker Rehabilitation, Inc. is financed by a mortgage payable to the U.S. Department of Housing and Urban Development. The mortgage matures in October 2030, bears interest at 8.375%, and is collateralized by the Project. As of June 30, 2021, the balance of the mortgage note payable amounted to \$509,468.

On April 29, 2021, Northwood Health Systems, Inc. obtained a loan from Wesbanco in the amount of \$5,760,000 for the construction of a new building. Beginning May 29, 2021, the Organization will make eighteen consecutive monthly payments consisting of interest only. As of November 29, 2022, the loan is payable in monthly installments of \$27,853 including interest at 1.5% through May 29, 2028, at which time monthly installments of \$30,588 including interest at 1.43% will be payable through March 29, 2041. One final payment is due on April 29, 2041 for any unpaid balance. As of June 30, 2021, the balance of the loan amounted to \$5,760,000.

Principal payments on the notes payable due in the next five years following June 30, 2021 are as follows:

2022	\$ 37,625
2023	204,919
2024	293,695
2025	301,453
2026	309,610
Thereafter	<u>5,122,166</u>
	<u>\$ 6,269,468</u>

Northwood has a \$2,000,000 revolving line of credit with a local bank, as well as an additional \$550,000 non-revolving line of credit for which any borrowings would be collateralized by certain real estate and accounts receivable. The loan and security agreements contain certain positive and negative covenants, including a requirement to maintain certain financial ratios. As of the reporting date, the Organization is in compliance with such covenants. There were no outstanding borrowings on the lines of credit as of June 30, 2021 or 2020, respectively.

Interest expense amounted to \$44,016 and \$46,810 for the years ended June 30, 2021 and 2020, respectively.

NOTE 5: RENT INCREASE

Under the Regulatory Agreement, the Projects may not increase rents charged to tenants without HUD approval.

NORTHWOOD HEALTH SYSTEMS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

NOTE 6: CAPITAL ADVANCE

Larkin, Inc. and Ash Grove, Inc. are each funded by a Section 811 Capital Advance from HUD secured by a mortgage deed on the respective properties. The capital advances of Larkin, Inc. and Ash Grove, Inc. amount to \$659,000 and \$310,100, respectively, and were recognized as income in the year of receipt as permitted by HUD. As noted in the mortgage notes dated September 25, 1996 and April 22, 1998, respectively, the principal shall bear no interest nor shall repayment be required so long as the housing remains available to eligible, low-income persons with disabilities in accordance with Section 811 of the National Affordable Housing Act of 1990 for 40 years. If default is made by the owner, the entire principal sum plus interest shall at once become due and payable.

NOTE 7: CURRENT VULNERABILITY DUE TO CERTAIN CONCENTRATIONS

The Projects' sole assets are their respective apartment complexes. The Projects' operations are concentrated in the multi-family real estate market. In addition, the Projects operate in a heavily regulated environment. The operations of the Projects are subject to the administrative directives, rules and regulations of federal, state and local regulatory agencies, including, but not limited to, HUD. Such administrative directives, rules and regulations are subject to change by an act of congress or an administrative change mandated by HUD. Such changes may occur with little notice or inadequate funding to pay for the related cost, including additional administrative burden, to comply with a change.

NOTE 8: MEDICAID

Total Medicaid and Medicaid Waiver revenue, gross and net of related provisions for allowances were as follows:

	2021		2020	
	Gross	Net	Gross	Net
ICF/MR	\$ 4,081,985	\$ 4,081,985	\$ 4,157,334	\$ 4,157,334
Waiver	9,438,581	9,418,288	9,445,966	9,434,618
Medicaid	10,480,956	8,872,102	9,921,795	8,327,620
Total Medicaid	<u>\$ 24,001,522</u>	<u>\$ 22,372,375</u>	<u>\$ 23,525,095</u>	<u>\$ 21,919,572</u>

These amounts are included in the Revenue section of the Statements of Revenues, Support and Expenses and Changes in Net Assets.

NOTE 9: LEGAL PROCEEDINGS

Northwood is involved in legal actions in the ordinary course of its business. Although the outcome of any litigation cannot be predicted with certainty, management believes that any unfavorable settlements or decisions will either be covered by insurance or not materially affect Northwood's financial position or results of operation.

NORTHWOOD HEALTH SYSTEMS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

NOTE 10: RETIREMENT PLAN

The Organization maintains a Defined Contribution Annuity Plan as set forth in section 403(b) of the Internal Revenue code for Tax Sheltered Annuities. This plan covers all employees who meet certain eligibility and participation requirements. The plan provides for tax deferred salary reductions to be contributed to the Plan on behalf of Participants. The employer's contribution is elective and is "allocated" or divided among eligible participants based upon a percentage of the eligible participant's gross earnings. This plan may be amended or terminated at any time by formal action of Northwood's Board of Directors.

A complete copy of the plan is on file at Northwood's administrative offices and may be examined at any reasonable time. Contributions to the plan for fiscal years ended June 30, 2021 and 2020 amounted to \$606,313 and \$533,191, respectively.

NOTE 11: LEASES

Northwood leases various facilities and vehicles under operating leases. Rental expenses for the years ended June 30, 2021 and 2020 amounted to \$675,316 and \$660,833, respectively. The following schedule outlines the future minimum lease payments as of June 30, 2021:

2022	\$ 221,427
2023	134,899
2024	136,759
2025	92,473
2026	49,418
Total	<u><u>\$ 634,976</u></u>

NOTE 12: FUNCTIONAL CLASSIFICATION OF EXPENSES

The consolidated financial statements report certain categories of expenses that are attributable to one or more program or supporting functions. Those expenses are salaries and wages, employee benefits, contracted services, transportation, West Virginia Provider taxes, depreciation, and other expenses. Salaries and wages and employee benefits are allocated based on the function of the employee. Contracted services are allocated based on the type of service provided. Transportation and other expenses are allocated based on use. West Virginia Provider taxes are allocated based on the use of the product or service provided

NOTE 13: CHARITY CARE

For the years ended June 30, 2021 and 2020 Northwood Health Systems, Inc. provided free services of \$1,081,839 and \$964,008, respectively, in charity care.

NORTHWOOD HEALTH SYSTEMS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

NOTE 14: CONCENTRATIONS OF CREDIT RISK

Northwood Health Systems, Inc.'s operations are concentrated in the northern panhandle of West Virginia. In addition, the Organization receives a substantial amount of its support from, and carries significant receivables from, the West Virginia Department of Health and Human Resources through the Bureau of Medical Services (Medicaid) for treatment related services to Medicaid eligible individuals. A significant reduction of this support would have a major effect on the operations of the corporation. Investments that subject the Organization to credit risk include bonds and bond funds, which are carried at their fair value of \$4,593,948 at June 30, 2021. The Organization maintains cash balances at several local banks. Accounts at each institution are insured by the Federal Deposit Insurance Corporation (FDIC).

NOTE 15: FIXED ASSETS

Fixed assets at June 30, 2021 and 2020 were comprised of the following:

	2021	2020
Land	\$ 743,227	\$ 535,579
Start-up Costs	157,095	133,360
Buildings and Improvements	6,641,221	6,544,347
Furniture, Fixtures & Equipment	476,106	3,050,649
Vehicles	642,749	680,599
Construction in progress	10,239,014	874,975
	18,899,412	11,819,509
Accumulated Depreciation	(5,787,155)	(8,215,157)
	\$ 13,112,257	\$ 3,604,352

The following summarizes assets acquired with State funds and the related accumulated depreciation:

	Balance			Balance	
<u>Assets:</u>	<u>06/30/20</u>	<u>Additions</u>	<u>Disposals</u>	<u>06/30/21</u>	
Equipment	\$ 26,244	\$ -0-	\$ -0-	\$ 26,244	
Leaseholds	14,854	-0-	-0-	14,854	
	\$ 41,098	\$ -0-	\$ -0-	\$ 41,098	

	Balance			Balance	Net Book
<u>Accumulated Depreciation:</u>	<u>06/30/20</u>	<u>Additions</u>	<u>Disposals</u>	<u>06/30/21</u>	<u>Value</u>
Equipment	\$ 26,244	\$ -0-	\$ -0-	\$ 26,244	\$ -0-
Leaseholds	14,854	-0-	-0-	14,854	-0-
	\$ 41,098	\$ -0-	\$ -0-	\$ 41,098	\$ -0-

NORTHWOOD HEALTH SYSTEMS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

NOTE 16: ACCOUNTS RECEIVABLE

Northwood Health Systems, Inc. maintains an aged accounts receivable system. Based on this aging and payment history Northwood has determined the percentage deemed uncollectible for each funding source. The allowance for doubtful accounts and contractual allowances is calculated using these percentages and amounted to \$56,090 and \$35,448 in 2021 and 2020, respectively. Past due accounts are written off in the period management deems them to be uncollectible. Northwood Health Systems, Inc. does not maintain a material allowance for doubtful accounts from third-party payors, nor did it have significant write-offs from third-party payors. For receivables associated with self-pay patients, Northwood Health Systems, Inc., records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible.

NOTE 17: WHOLLY OWNED SUBSIDIARIES

Northwood Health Systems, Inc. receives a management fee of 5% from Tucker Rehabilitation, Inc., 9.61% from Larkin, Inc., and 9.02% from Ash Grove, Inc., all of which are wholly owned subsidiaries. The following schedule details the management fees paid to Northwood.

<u>Subsidiary</u>	<u>2021</u>	<u>2020</u>
Tucker Rehabilitation, Inc.	\$ 9,017	\$ 9,017
Larkin, Inc.	5,040	5,040
Ash Grove, Inc	4,032	4,026
Total	<u>\$ 18,089</u>	<u>\$ 18,083</u>

The above transactions are eliminated in the consolidated report.

NOTE 18: HUD RESTRICTED CASH

Tucker Rehabilitation, Inc., Larkin, Inc. and Ash Grove, Inc. are required by the U.S. Department of Housing and Urban Development (HUD) to maintain certain accounts for tenant security deposits, repairs and replacements, and residual receipts. These funds are maintained in separate accounts insured by the FDIC. Use of the replacement reserve and residual receipts accounts is contingent on HUD's prior written approval.

NORTHWOOD HEALTH SYSTEMS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

NOTE 19: OTHER ASSETS

Other assets consist of the following as of June 30, 2021 and 2020:

	2021	2020
Long-term prepaid expenses	\$ 144,181	\$ 268,342
Investment in the 457(B) plan	589,449	423,854
Investment in the Rabbi Trust	343,321	-
Cash surrender value of executive's life insurance	210,657	211,100
Investment in joint venture	(240,517)	(232,415)
Total Long Term	\$ 1,047,091	\$ 670,881

NOTE 20: INVESTMENT IN JOINT VENTURE

Northwood Health Systems, Inc. is a 50% investor in an unincorporated joint venture. Russell Nesbitt Program was formed between Northwood Health Systems, Inc. and another non-profit organization to acquire an interest in property located in Wheeling, West Virginia and to operate therein an apartment complex of 8 units under Section 8 of the National Housing Act. The investment (deficit) in joint venture is valued using the equity method and is included in other assets on the Balance Sheet. Northwood's equity (deficit) in the joint venture amounted to (\$240,517) and (\$232,415) respectively, as of June 30, 2021 and 2020. Northwood recognized (\$8,101) and (\$6,936) of income (losses) in miscellaneous and other revenue (expense) on the Statements of Revenues, Support and Expenses and Changes in Net Assets related to the joint venture during 2021 and 2020, respectively.

Northwood Health Systems, Inc. is also the managing agent of Russell Nesbitt Program and pays for certain expenses of the Program until such time as reimbursement can be made. During the years ended June 30, 2021 and 2020, Northwood Health Systems, Inc. recognized management fee income totaling \$4,049 and \$3,865, respectively. As of June 30, 2021 and 2020, the balance payable from Russell Nesbitt Program to Northwood Health Systems, Inc. amounted to \$565,452 and \$553,771, respectively.

NOTE 21: CASH BALANCES IN EXCESS OF FDIC INSURANCE

The Federal Deposit Insurance Corporation (FDIC) insures a maximum of \$250,000 per depositor. Differences do exist between financial institution and book balances due to deposits-in-transit, outstanding checks and other reconciling items. The following uninsured excess exists at June 30, 2021.

	BB&T
Balance as of June 30, 2021	\$ 713,342
Less: Total FDIC Coverage for two accounts	(500,000)
Amount uninsured at June 30, 2021	\$ 213,342

NORTHWOOD HEALTH SYSTEMS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

NOTE 22: FAIR VALUE MEASUREMENTS

The Organization's investments are reported at fair value in the accompanying statement of financial position. Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 820, *Fair Value Measurements and Disclosures*, provides the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). Level 1 inputs consist of unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access. Level 2 inputs consist of quoted prices for similar assets or liabilities in active markets, or inputs other than quoted prices that are observable for the asset or liability. The asset or liability's fair value measurement level within the fair value hierarchy is based on 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.

Fair Value of Assets measured as of June 30, 2021 are as follows:

<u>Recurring fair value measurements</u>	Fair Value Measurement at the End of the Reporting Period Using				Total Gains (Losses)
	<u>Total</u>	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Cash and cash equivalents:	\$ 428,266	\$ 428,266	\$ -	\$ -	\$ -
Equities mutual funds	2,227,954	2,227,954	-	-	-
Fixed Income:					
Bond funds	2,229,018	2,229,018	-	-	-
Bonds	2,364,930	2,364,930	-	-	-
Total recurring fair value measurements	<u>\$ 7,250,168</u>	<u>\$ 7,250,168</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 574,117</u>

NORTHWOOD HEALTH SYSTEMS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

NOTE 22: FAIR VALUE MEASUREMENTS (CONTINUED)

Fair Value of Assets measured as of June 30, 2020, are as follows:

<u>Recurring fair value measurements</u>	Fair Value Measurement at the End of the Reporting Period Using				Total Gains (Losses)
	<u>Total</u>	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Cash and cash equivalents:	\$ 594,976	\$ 594,976	\$ -	\$ -	\$ -
Equities mutual funds	1,639,495	1,639,495	-	-	-
Fixed Income:					
Bond funds	1,198,110	1,198,110	-	-	-
Bonds	<u>3,144,185</u>	<u>3,144,185</u>	-	-	-
Total recurring fair value measurements	<u>\$ 6,576,766</u>	<u>\$ 6,576,766</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 166,153</u>

NOTE 23: NET ASSETS WITHOUT DONOR RESTRICTIONS – BOARD DESIGNATED

Net assets without donor restrictions – Board designated are designated for capital improvements in the amounts of \$7,016,256 and \$10,000,000 as of June 30, 2021 and 2020, respectively.

NOTE 24: NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted for the following purposes as of June 30, 2021 and 2020.

Subject to expenditure for specified purpose and time:	<u>2021</u>	<u>2020</u>
Charitable Housing, released from restrictions on June 30, 2036.	<u>\$ 423,876</u>	<u>\$ 452,777</u>

NORTHWOOD HEALTH SYSTEMS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

NOTE 25: LIQUIDITY

Northwood Health Systems, Inc.'s financial assets available within one year of the balance sheet date for general expenditures consist of the following:

Cash and cash equivalents	\$ 2,595,640
Contracts receivable from State	523,156
Accounts receivable from patients	2,100,224
Other receivables	81,262
Total	<u>\$ 5,300,282</u>

As part of Northwood Health Systems, Inc. liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due.

NOTE 26: OTHER REVENUE – NON-RECURRING

Northwood has elected to show the COVID related revenue as Other revenue – non-recurring. The breakdown of the non-recurring revenue is as follows:

	<u>2021</u>	<u>2020</u>
Federal COVID relief funding	\$ 390,557	\$ 1,046,604
State grant COVID relief funding	127,326	438,450
Blue Cross Blue Shield refund	547,439	-
WV Medicaid COVID payment	98,848	-
Miscellaneous	69,242	59,159
Total	<u>\$ 1,233,412</u>	<u>\$ 1,544,213</u>

NOTE 27: CASH RECONCILIATION

The following table provides the detail of the items included in cash and restricted cash reported on the statement of cash flows for the years ended June 30, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 2,595,640	\$ 3,964,847
HUD restricted deposits	160,003	139,135
Board designated cash	4,864,231	5,000,000
Total cash, cash equivalents and restricted cash per statement of cash flows	<u>\$ 7,619,874</u>	<u>\$ 9,103,982</u>

NORTHWOOD HEALTH SYSTEMS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

NOTE 28: PRIOR PERIOD ADJUSTMENT

During the reconciliation of the 457(B) Plan, it has been determined that the Plan liability was understated. Northwood has restated its 2020 financial statements to increase the Plan liability to agree with the Plan assets. The restatement resulted in a net increase of \$1,399 in net income as previously reported.

The prior period adjustment of \$367,458 as shown on the Consolidated Statements of Revenues, Support and Expenses represents the aggregate adjustment that pertains to years prior to June 30, 2020.

NOTE 29: SUBSEQUENT EVENTS

As of August 18, 2021, the building located at 111 19th Street, Wheeling, West Virginia, previously leased by Northwood Health Systems, Inc. was donated to the Organization. The appraised value of the land and building is \$4,701,020. The effect of the donation will be to recognize \$4,701,020 in charity revenue in fiscal year 2022 as well as capitalizing the same amount as land and building. The donation will also reduce leasing expense by approximately \$371,000 while increasing depreciation expense by approximately \$150,000 during the fiscal year. The building was donated without any restrictions as to use or purpose.

NORTHWOOD HEALTH SYSTEMS, INC. AND SUBSIDIARIES
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2021

Federal Grantor/Program Title	CFDA	Project Name	Project No.	Pass-Through Identification Number	Award Amount	Expenditures
U.S. Department of Housing and Urban Development Supportive Housing for the Elderly - Section 202 Direct Loan	14.157	Tucker Rehabilitation, Inc.	045-EH088	N/A	N/A	\$ 509,468
Lower Income Rental Assistance (Section 8) Total Section 8 Project Based Cluster	14.195	Tucker Rehabilitation, Inc.	045-EH088	N/A	160,927	160,927
Supportive Housing for Persons with Disabilities Program:*						
Supportive Housing for Persons with Disabilities - Section 811 Capital Advance	14.181	Larkin, Inc.	045-HD002	N/A	N/A	659,000
	14.181	Ash Grove, Inc.	045-HD008	N/A	N/A	310,100
Supportive Housing for Persons with Disabilities - Section 811 Housing Assistance	14.181	Larkin, Inc.	045-HD002	N/A	51,305	51,305
Total Supportive Housing for Persons with Disabilities	14.181	Ash Grove, Inc.	045-HD008	N/A	21,306	21,306
						1,041,711
Total U.S. Department of Housing and Urban Development						1,712,106
U.S. Department of Health and Human Services						
West Virginia Department of Health and Human Services						
Opioid STR	93.788	N/A	N/A	8723-13000	942,634	503,809
Opioid STR	93.788	N/A	N/A	8723-13000	360,000	143,333
Total Opioid STR						647,142
Block Grants for Prevention and Treatment of Substance Abuse	93.959	N/A	N/A	8793-13000	27,000	27,000
Block Grants for Prevention and Treatment of Substance Abuse	93.959	N/A	N/A	8793-13000	242,458	127,454
Block Grants for Prevention and Treatment of Substance Abuse	93.959	N/A	N/A	8793-13000	160,740	65,490
Block Grants for Prevention and Treatment of Substance Abuse	93.959	N/A	N/A	8793-13000	484,916	278,250
Total Block Grants for Prevention and Treatment of Substance Abuse						498,194
Total West Virginia Department of Health and Human Services						1,145,336
West Virginia University Research Corporation						
Opioid STR	93.788	N/A	N/A	Not Provided	52,220	32,887
Total West Virginia University Research Corporation						32,887
Youth Services Systems						
Block Grants for Community Mental Health Services	93.958	N/A	N/A	8794-13000	100,000	25,001
Block Grants for Community Mental Health Services	93.958	N/A	N/A	8794-13000	106,800	75,532
Total Youth Services Systems						100,533
Total U.S. Department of Health and Human Services						1,278,756
Total expenditures of federal awards						\$ 2,990,862

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS:

NOTE A - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Northwood Health Systems Inc. and Subsidiaries and is presented on the accrual basis of accounting. The information in the schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), wherein certain types of expenditures are not allowable or are limited as to reimbursement. Northwood Health Systems Inc. and Subsidiaries did not use the 10% de minimis cost rate contained in the Uniform Guidance for Federal Awards.

* Major Program

NORTHWOOD HEALTH SYSTEMS, INC. AND SUBSIDIARIES
SCHEDULE OF EXPENDITURES OF STATE AWARDS
FOR THE YEAR ENDED JUNE 30, 2021

Grantor/Program Title	Account Numbers	Grant or Award Number	Award Amount	Expenditures	Advanced Billing	Deferred Revenue 6/30/21	Accounts Receivable 6/30/21	Current Revenue Earned
Continuum Enhancement Program	0525-0000-2021-0506-2851-21900-3256-4231	G210188	\$ 277,636	\$ 277,636	\$ -	\$ -	\$ 55,016	\$ 277,636
Community Engagement Specialist	0525-0000-2021-0506-3701-21900-3256-4231	G210258	723,816	716,154	-	-	71,958	716,154
Adult Mental Health	0525-0000-2021-0506-3743-21900-3256-4231	G210222	1,100,000	1,017,966	-	-	28,336	1,017,966
Adult Mental Health	0525-0000-2021-0506-3115-21900-6256-4231	G210222	436,915	439,061	-	-	46,500	439,061
Adult Mental Health	0525-0000-2021-0506-3744-21900-3256-4231	G210222	246,387	193,905	-	-	(25,379)	193,905
Crisis Stabilization Unit Pilot	0525-0000-2019-0506-2884-21900-3256-4231	G200928	9,263	-	-	-	-	-
Crisis Stabilization Unit Pilot	0525-0000-2019-0506-2884-21900-3256-4231	G200929	69,113	56,069	-	-	-	56,069
Crisis Stabilization Unit Pilot	0525-0000-2016-0506-2884-21900-3256-4231	G210867	18,526	-	-	-	-	-
Crisis Stabilization Unit Pilot	0525-0000-2018-0506-2884-21900-3256-4231	G210868	459,706	297,000	-	-	27,306	297,000
Jobs and Hope Peer Recovery Support Specialist	0525-0000-2020-0506-2888-14901-3256-4230	G200613	120,000	19,916	-	-	(13,819)	19,916
Indigent Care	0525-0000-2021-0506-3065-21900-3256-4231	G210201	696,916	271,435	-	-	-	271,435
Rawson Intensive ToT SUD	0407-0000-2019-0506-3809-35402-3256-4231	G210710	3,000	3,000	-	-	-	3,000
Statewide Therapist Loan Repayment Program	0407-0000-2018-0506-3809-35401-3256-4231	G210816	20,000	20,000	-	-	-	20,000
Brooke Hancock FRN, Inc.	0525-0000-2021-0506-2867-21900-3256-4231	G210291	20,000	19,998	-	-	2,700	19,998
Total			4,201,278	3,332,140	-	-	192,618	3,332,140
Continuum Enhancement Program (Included in Other Revenue)			-	(127,326)	-	-	(21,948.00)	(127,326)
Total			<u>\$ 4,201,278</u>	<u>\$ 3,204,814</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 170,670</u>	<u>\$ 3,204,814</u>

INDEPENDENT AUDITOR'S 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*

Board of Directors
Northwood Health Systems, Inc. and Subsidiaries:

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 Northwood Health Systems, Inc. and its subsidiaries, which comprise the consolidated balance sheet as of June 30, 2021, and the related consolidated statements of revenues, support and expenses and changes in net assets, 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 November 1, 2021.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Northwood Health Systems, Inc. and its subsidiaries' internal control over financial reporting (internal control) as a basis for designing audit 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 Northwood Health Systems, Inc. and its subsidiaries' internal control. Accordingly, we do not express an opinion on the effectiveness of Northwood Health Systems, Inc. and its subsidiaries' internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying schedule of findings and responses, we did identify certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and significant deficiencies.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses as item 2021-001 that we consider to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Northwood Health Systems, Inc. and its subsidiaries' 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. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Northwood Health Systems, Inc. and its subsidiaries' Response to Findings

Northwood Health Systems, Inc. and its subsidiaries' response to the finding identified in our audit is described in the accompanying schedule of findings and responses. Northwood Health Systems, Inc. and its subsidiaries' response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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



Goff Backa Alfera & Company, LLC
Pittsburgh, Pennsylvania
November 1, 2021

NORTHWOOD HEALTH SYSTEMS, INC. AND SUBSIDIARIES
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2021

Finding 2021-001:
Finding Related to the Balance of the 457(B) Plan

Condition: The Organization has understated the balance of the 457(B) Plan liability.

Criteria: The balance of the 457(B) Plan liability should agree to the value of the 457(B) plan assets.

Effect: The Organization has understated the liabilities, which has caused the net assets to be overstated.

Recommendation: We recommend that management analyze the changes in the 457(B) Plan annually, to ensure that the liability is accurately stated.

Response: We agree with the finding, and accounting for the 457(B) Plan has been corrected.



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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH THE UNIFORM GUIDANCE

Board of Directors
Northwood Health Systems, Inc. and Subsidiaries:

Report on Compliance for Each Major Federal Program

We have audited Northwood Health Systems, Inc. and its subsidiaries' compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Northwood Health Systems, Inc. and its subsidiaries' major federal programs for the year ended June 30, 2021. Northwood Health Systems, Inc. and its subsidiaries' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Northwood Health Systems, Inc. and its subsidiaries' compliance.

Opinion on Each Major Federal Program

In our opinion, Northwood Health Systems, Inc. and its subsidiaries complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2021.

Report on Internal Control over Compliance

Management of Northwood Health Systems, Inc. and its subsidiaries is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Northwood Health Systems, Inc. and its subsidiaries' internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Northwood Health Systems, Inc. and its subsidiaries' internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control 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.

Goff Backa Alfera & Company, LLC

Goff Backa Alfera & Company, LLC
Pittsburgh, Pennsylvania
November 1, 2021

NORTHWOOD HEALTH SYSTEMS, INC. AND SUBSIDIARIES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2021

A. Summary of Auditors' Results

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
Material weakness identified?	Yes
Reportable conditions identified that are not considered to be material weaknesses?	No
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
Material weakness identified?	No
Reportable conditions identified that are not considered to be material weaknesses?	No
Type of auditor's report issued on compliance with major programs:	Unmodified
Any audit findings disclosed that are required to be reported under 2 CFR section 200.516(a)?	No

Identification of Major Programs

<u>CFDA Number</u>	<u>Name of Federal Program</u>
14.181	Supportive Housing for Persons with Disabilities

Dollar threshold used to distinguish between Type A and Type B programs:	\$750,000
Auditee qualified as a low-risk auditee?	Yes

NORTHWOOD HEALTH SYSTEMS, INC. AND SUBSIDIARIES
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2021

There were no audit findings related to federal awards for the year ended June 30, 2020.