

Brooklyn Plaza Medical Center, Inc.

**Financial Statements,
Schedule of Expenditures of Federal
Awards, Internal Control and Compliance
and Independent Auditor's Reports**

December 31, 2014

Brooklyn Plaza Medical Center, Inc.

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Independent Auditor's Report

To the Board of Directors
Brooklyn Plaza Medical Center, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Brooklyn Plaza Medical Center, Inc. (the "Center") which comprise the statement of financial position as of December 31, 2014, and the related statements of activities and changes in net assets, functional expenses and cash flows for the year 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 Center'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 the Center as of December 31, 2014, 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.

Other Matters

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 Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

As noted in Note 2 to the accompanying financial statements, the Center's management has provided recommendations regarding the Center's liquidity and its plans to improve results of operations.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 22, 2015, 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 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 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.



New York, New York
October 22, 2015

Brooklyn Plaza Medical Center, Inc.

Statement of Financial Position
December 31, 2014

Assets

Cash and cash equivalents	\$ 70,885
Investments	101,071
DHHS grants receivable	174,670
Patient services receivable, net	458,999
Other current assets	41,799
Property and equipment, net	648,190
Security deposits	6,120
	<hr/>
Total assets	\$ 1,501,734
	<hr/> <hr/>

Liabilities and Unrestricted Net Assets

Liabilities	
Line of credit	\$ 450,000
Accounts payable and accrued expenses	488,665
Accrued compensation	129,277
Due to third-party payor	292,340
Deferred rent	105,222
Total liabilities	<hr/> 1,465,504
Commitments and contingencies	
Unrestricted net assets	<hr/> 36,230
Total liabilities and unrestricted net assets	\$ 1,501,734
	<hr/> <hr/>

See Notes to Financial Statements.

Brooklyn Plaza Medical Center, Inc.

Statement of Activities and Changes in Net Assets
Year Ended December 31, 2014

Unrestricted revenue	
Patient services revenue (net of contractual allowances and discounts)	\$ 3,935,207
Provision for bad debts	<u>(67,452)</u>
Net patient services revenue	3,867,755
DHHS grants	3,004,322
Contract services	41,877
Donated vaccines	153,765
Other	<u>168,310</u>
Total unrestricted revenue	<u>7,236,029</u>
Expenses	
Salaries and benefits	4,699,021
Other than personnel services	2,247,189
Interest expense	<u>18,045</u>
Total expenses	<u>6,964,255</u>
Operating income prior to depreciation and amortization	271,774
Depreciation and amortization	<u>245,568</u>
Increase in unrestricted net assets	26,206
Unrestricted net assets, beginning of year	<u>10,024</u>
Unrestricted net assets, end of year	<u>\$ 36,230</u>

See Notes to Financial Statements.

Brooklyn Plaza Medical Center, Inc.

**Statement of Functional Expenses
Year Ended December 31, 2014**

	<u>Program Services</u>	<u>General and Administrative</u>	<u>Total</u>
Salaries and wages	\$ 3,337,535	\$ 580,083	\$ 3,917,618
Fringe benefits	665,700	115,703	781,403
Consultant and contractual services	94,860	202,754	297,614
Professional fees	-	194,833	194,833
Consumable supplies	391,764	135,360	527,124
Space costs	657,227	134,613	791,840
Insurance	48,015	9,834	57,849
Repairs and maintenance	33,652	6,893	40,545
Equipment rental	45,164	9,251	54,415
Telephone and communications	81,850	1,175	83,025
Travel, conferences and meetings	1,714	19,463	21,177
Printing, publications and postage	3,726	2,404	6,130
Dues and subscriptions	9,122	225	9,347
Data processing	77,564	15,886	93,450
Interest	14,977	3,068	18,045
Other	13,056	56,784	69,840
Totals	<u>5,475,926</u>	<u>1,488,329</u>	<u>6,964,255</u>
Depreciation and amortization	<u>203,821</u>	<u>41,747</u>	<u>245,568</u>
Total functional expenses	<u>\$ 5,679,747</u>	<u>\$ 1,530,076</u>	<u>\$ 7,209,823</u>

See Notes to Financial Statements.

Brooklyn Plaza Medical Center, Inc.

**Statement of Cash Flows
Year Ended December 31, 2014**

Cash flows from operating activities	
Cash received from patient services	\$ 3,789,955
Cash received from DHHS grants	2,901,875
Cash received from contract services	41,877
Cash received from other	130,511
Cash paid to employees	(4,912,407)
Cash paid to vendors	(2,083,097)
Cash paid for interest	(18,045)
Net cash used in operating activities	<u>(149,331)</u>
Cash flows from investing activities	
Cash paid for property and equipment	<u>(36,040)</u>
Net cash used in investing activities	<u>(36,040)</u>
Net decrease in cash and cash equivalents	(185,371)
Cash and cash equivalents, beginning of year	<u>256,256</u>
Cash and cash equivalents, end of year	<u><u>\$ 70,885</u></u>
Reconciliation of increase in unrestricted net assets to net cash used in operating activities	
Increase in unrestricted net assets	\$ 26,206
Adjustments to reconcile increase in unrestricted net assets to net cash used in operating activities	
Provision for bad debts	67,452
Depreciation and amortization	245,568
Deferred rent	(10,038)
Changes in operating assets and liabilities	
DHHS grants receivable	(102,447)
Patient services receivable	(56,118)
Other current assets	(37,799)
Accounts payable and accrued expenses	20,365
Accrued compensation	(213,386)
Due to third-party payor	(89,134)
Net cash used in operating activities	<u><u>\$ (149,331)</u></u>

See Notes to Financial Statements.

Brooklyn Plaza Medical Center, Inc.

Notes to Financial Statements December 31, 2014

Note 1 - Organization

Brooklyn Plaza Medical Center, Inc. (the "Center") operates freestanding diagnostic and treatment centers located in the Fort Greene section of Brooklyn, New York. The Center provides a broad range of health services to a largely medically underserved population.

The U.S. Department of Health and Human Services (the "DHHS") provides substantial support to the Center. The Center is obligated under the terms of the DHHS grants to comply with specified conditions and program requirements set forth by the grantor.

Note 2 - Liquidity and management's plans

The Center had a working capital deficiency of \$317,965 as of December 31, 2014. Management of the Center has developed a plan to improve the results of operations and cash flows. An increase in cash flows will be derived from an increase in revenue. The Center obtained additional Federal funding for behavioral health services and plans to apply for meaningful use incentives and establish a larger scale 340B pharmacy program in 2015. In August 2015, the Center refinanced the line of credit into a loan payable over 80 months. This will help provide positive working capital. In addition, the Center has plans to continue many cost-cutting measures in fiscal year 2015 in order to reduce its liabilities.

Note 3 - Summary of significant accounting policies

Basis of presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Classification of net assets

The Center classifies its net assets into three categories, which are described as follows:

Unrestricted net assets are reflective of revenues and expenses associated with the principal operating activities of the Center and are not subject to donor-imposed stipulations. The Center has unrestricted net assets of \$36,230 at December 31, 2014.

Temporarily restricted net assets are subject to donor-imposed stipulations that may or will be met either by actions of the Center and/or the passage of time. When a donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets that are reported in the statement of activities and changes in net assets as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the financial statements. There were no temporarily restricted net assets at December 31, 2014.

Brooklyn Plaza Medical Center, Inc.

Notes to Financial Statements December 31, 2014

Permanently restricted net assets are subject to donor-imposed stipulations that must be maintained permanently by the Center. There were no permanently restricted net assets at December 31, 2014.

Cash and cash equivalents

The Center maintains its cash and cash equivalents in bank deposit accounts which, at times, may exceed Federally-insured limits. The Center has not experienced any losses in such accounts. At December 31, 2014, the Center's cash balances did not exceed FDIC insurance limits. All highly liquid investments with maturities of three months or less when purchased are considered to be cash equivalents.

Investments

Investments consist of money market funds, which are reported in the financial statements at fair value. The statement of activities and changes in net assets recognizes unrealized gains and losses on investments as increases or decreases, respectively, in unrestricted net assets.

Patient services receivable and concentrations of credit risk

The collection of receivables from third-party payors and patients is the Center's primary source of cash for operations and is critical to its operating performance. The primary collection risks relate to uninsured patient accounts and patient accounts for which the primary insurance payor has paid, but patient responsibility amounts (deductibles and copayments) remain outstanding. Patient receivables from third-party payors are carried at a net amount determined by the original charge for the service provided, less an estimate made for contractual adjustments or discounts provided to third-party payors.

Receivables due directly from patients are carried at the original charge for the service provided less discounts provided under the Center's charity care policy, less amounts covered by third-party payors and less an estimated allowance for doubtful receivables. Management determines the allowance for doubtful accounts by identifying troubled accounts and by historical experience applied to an aging of accounts. The Center considers accounts past due when they are outstanding beyond 90 days with no payment. The Center generally does not charge interest on past due accounts. Patient receivables are written off when deemed uncollectable. Recoveries of receivables previously written off are recorded as a reduction of bad debt expense when received.

DHHS grants receivable

DHHS grants receivable consists of costs under the DHHS grant agreements which were incurred prior to year-end for which payment has not been received. DHHS grants receivable credit risk is limited due to the nature of the grants. The Center regularly monitors its DHHS grants receivable by investigating delayed payments and differences when payments received do not conform to the amount billed. The Center considers all DHHS grants as collectible.

Brooklyn Plaza Medical Center, Inc.

Notes to Financial Statements December 31, 2014

Property and equipment

Property and equipment are recorded at cost or, if donated, at the fair value at the date of donation. Depreciation and amortization are recorded on a straight-line basis over the estimated useful lives of the assets, which approximate five years. Leasehold improvements are amortized on a straight-line basis over the estimated useful life of the improvement or the term of the lease, whichever is less. The Center capitalizes all purchases of property and equipment in excess of \$2,500.

Maintenance, repairs and other minor renewals are expensed as incurred. When assets are restored or otherwise disposed of, their costs and related accumulated depreciation and amortization are removed from the accounts and any resulting gains or losses are included in change in net assets.

According to Federal regulations, any property and equipment obtained through Federal funds are subject to a lien by the Federal government. Provided that the Center maintains its tax-exempt status and the property and equipment are used for their intended purpose, the Center is not required to reimburse the Federal government. If the stated requirements are not met, the Center would be obligated to the Federal government in an amount equal to the fair value of the property and equipment.

Impairment of long-lived assets

The Center reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In performing a review for impairment, the Center compares the carrying value of the assets with their estimated future undiscounted cash flows.

If it is determined that impairment has occurred, the loss would be recognized during that period. The impairment loss is calculated as the difference between the asset's carrying value and the present value of estimated net cash flows or comparable market values, giving consideration to recent operating performance and pricing trends. The Center does not believe that any material impairment currently exists relating to its long-lived assets.

Deferred rent

Rent expense is recognized on a straight-line basis over the term of the leases. At December 31, 2014, \$105,222 is reflected as deferred rent, which represents the excess of rent expense computed on a straight-line basis over the minimum lease payments.

Patient services revenue

The Center has agreements with third-party payors that provide for payments to the Center at amounts different from its established rates. Payment arrangements include predetermined fee schedules and discounted charges. Service fees are reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered, including retroactive adjustments, if applicable, under reimbursement agreements with third-party payors, which are subject to audit by administering agencies. These adjustments are accrued on an estimated basis and are adjusted in future periods as final settlements are determined. The Center provides care to certain patients under

Brooklyn Plaza Medical Center, Inc.

Notes to Financial Statements December 31, 2014

Medicaid and Medicare payment arrangements. Laws and regulations governing the Medicaid and Medicare programs are complex and subject to interpretation. Compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action. Self-pay revenue is recorded at published charges with charitable care deducted to arrive at gross self-pay revenue. Contractual allowances are then deducted to arrive at net self-pay patient revenue before provision for bad debts.

Charity care and community benefit

The Center is open to all patients, regardless of their ability to pay. In the ordinary course of business, the Center renders services to patients who are financially unable to pay for healthcare. The Center provides care to these patients who meet certain criteria under its sliding fee discount policy without charge or at amounts less than the established rates. Charity care services are computed using a sliding fee scale based on patient income and family size. The Center maintains records to identify and monitor the level of sliding fee discount it provides. For uninsured self-pay patients that do not qualify for charity care, the Center recognizes revenue on the basis of its standard rates for services provided or on the basis of discounted rates, if negotiated or provided by policy. On the basis of historical experience, a significant portion of the Center's uninsured patients will be unable or unwilling to pay for the services provided. Thus, the Center records a significant provision for bad debts related to uninsured patients in the period the services are provided.

Community benefit represents the cost of services for Medicaid, Medicare and other public patients for which the Center is not reimbursed.

Based on the cost of patient services, charity care approximated \$615,000 and community benefit approximated \$1,100,000 for the year ended December 31, 2014.

Grants and contracts revenue

Revenue from government grants and contracts designated for use in specific activities is recognized in the period when expenditures have been incurred in compliance with the grantor's restrictions. Grant and contracts awarded for the acquisition of long-lived assets are reported as unrestricted non-operating revenue, in the absence of donor stipulations to the contrary, during the fiscal year in which the assets are acquired. Cash received in excess of revenue recognized is recorded as refundable advances.

At December 31, 2014, the Center has received conditional grants and contracts from governmental entities in the aggregate amount of approximately \$1,500,000 that have not been recorded in these financial statements. These grants and contracts require the Center to provide certain healthcare services during specified periods. If such services are not provided during the periods, the governmental entities are not obligated to expend the funds allotted under the grants and contracts.

Brooklyn Plaza Medical Center, Inc.

Notes to Financial Statements December 31, 2014

Contributions

Contributions are recorded as either temporarily or permanently restricted revenue if they are received with donor stipulations that limit the use of the donated asset. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities and changes in net assets as net assets released from restrictions. Contributions received with no donor stipulations are recorded as unrestricted revenue. Donor-restricted contributions whose restrictions expire during the same fiscal year are recognized as unrestricted revenue. Conditional contributions are recognized in the period when expenditures have been incurred in compliance with the grantor. There were no restricted or conditional contributions for the year ended December 31, 2014.

Donated rent

The Center records donated rent at fair value based on the space provided. During 2014, the Center received donated space of \$53,007, which is recorded in the statement of activities and changes in net assets as other revenue and other than personnel services expense.

Donated vaccines

The Center records donated items at fair value at date of donation. During 2014, the Center received \$153,765 of vaccines, which are recorded in the statement of activities and changes in net assets as both revenue and expense.

Meaningful use incentives

The American Recovery and Reinvestment Act of 2009 ("ARRA") amended the Social Security Act to establish one-time incentive payments under the Medicare and Medicaid programs for certain professionals that (1) meaningfully use certified Electronic Health Record ("EHR") technology, (2) use the certified EHR technology for electronic exchange of health information to improve quality of healthcare and (3) use the certified EHR technology to submit clinical and quality measures. These provisions of ARRA, together with certain of its other provisions, are referred to as the Health Information Technology for Clinical and Economic Health ("HITECH") Act. The criteria for meaningful use incentives will be staged in three steps over the course of the six years and be disbursed based on a transitional schedule. For the year ended December 31, 2014, the Center did not earn any meaningful use incentives.

Interest earned on Federal funds

Interest earned on Federal funds is recorded as a payable to the United States Public Health Service ("PHS") in compliance with the regulations of the United States Office of Management and Budget.

Functional expenses

Expenses are charged to program or general and administrative based on a combination of specific identification and allocation by management.

Brooklyn Plaza Medical Center, Inc.

Notes to Financial Statements December 31, 2014

Performance indicator

The statement of activities and changes in net assets includes increase in unrestricted net assets as the performance indicator.

Tax status

The Center was incorporated as a not-for-profit corporation under the laws of the State of New York and is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Therefore, there is no provision for income taxes. The Center has no unrecognized tax benefits at December 31, 2014. The Center's Federal and state income tax returns prior to fiscal year 2011 are closed and management continually evaluates expiring statutes of limitations, audits, proposed settlements, changes in tax law and new authoritative rulings.

The Center recognizes interest and penalties associated with tax matters as operating expenses and includes accrued interest and penalties with accrued expenses in the statement of financial position.

Subsequent events

The Center has evaluated subsequent events through October 22, 2015, which is the date the financial statements were available to be issued.

Note 4 - Fair value measurements

The Center values its financial assets and liabilities based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In order to increase consistency and comparability in fair value measurements, a fair value hierarchy that prioritizes observable and unobservable inputs is used to measure fair value into three broad levels, which are described below:

- Level 1: Quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.
- Level 2: Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in inactive markets; or model-derived valuations in which all significant inputs are observable or can be derived principally from or corroborated with observable market data.
- Level 3: Unobservable inputs are used when little or no market data is available. The fair value hierarchy gives the lowest priority to Level 3 inputs.

In determining fair value, the Center utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible as well as considers counterparty credit risk in its assessment of fair value.

Brooklyn Plaza Medical Center, Inc.

**Notes to Financial Statements
December 31, 2014**

Financial assets carried at fair value on a recurring basis at December 31, 2014 are classified in the table below in one of the three categories described above:

	<u>Assets at Fair Value as of December 31, 2014</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
U.S. Treasury Money Market Fund	\$ _____	\$101,071	\$ _____	\$101,071
Total assets, at fair value	<u>\$ -</u>	<u>\$101,071</u>	<u>\$ -</u>	<u>\$101,071</u>

The following methods and assumptions are used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value. There have been no changes in the methodologies used for the year ended December 31, 2014.

Investments in money market funds are valued using a yield-based matrix system to arrive at an estimated market value.

The preceding method may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Center believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Note 5 - Patient services receivable, net

Patient services receivable, net consist of the following:

Medicaid (includes Managed Care plans)	\$ 228,510
Medicare	75,000
Private insurance	80,000
Self-pay	56,440
New York State Uncompensated Care	<u>68,427</u>
	508,377
Less allowance for doubtful accounts	<u>(49,378)</u>
Total	<u>\$ 458,999</u>

Brooklyn Plaza Medical Center, Inc.

**Notes to Financial Statements
December 31, 2014**

Patient services receivable are reduced by an allowance for doubtful accounts. In evaluating the collectability of patient services receivable, the Center analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts. For receivables associated with services provided to patients who have third-party coverage, the Center analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid, or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely).

For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Center records a 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. The difference between the standard rates (or the discounted rates provided by the Center's policy) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged against the allowance for doubtful accounts.

The Center's allowance for doubtful accounts is 10% of patient services receivable at December 31, 2014. The Center had direct write-offs of approximately \$176,000 of patient services receivable for the year ended December 31, 2014. The Center has not changed its charity care or uninsured discount policies during fiscal year 2014. The Center does not maintain a material allowance for doubtful accounts from third-party payors, nor did it have significant write-offs from third-party payors.

Note 6 - Property and equipment, net

Property and equipment, net consists of the following:

Furniture and fixtures	\$ 18,006
Leasehold improvements	2,017,071
Equipment	<u>817,650</u>
	2,852,727
Less accumulated depreciation and amortization	<u>2,204,537</u>
Total	<u>\$ 648,190</u>

In the event the DHHS grants are terminated, the DHHS reserves the right to transfer all property and equipment purchased with grant funds to PHS or third parties.

Brooklyn Plaza Medical Center, Inc.

**Notes to Financial Statements
December 31, 2014**

Note 7 - Line of credit

The Center has an available line of credit with JP Morgan Chase Bank in the amount of \$700,000, which matured on June 4, 2015. Interest is payable monthly and is computed at the LIBOR rate, plus 3.855% (4.01% at December 31, 2014). The line of credit is secured by all business assets. The Center had a balance of \$450,000 outstanding at December 31, 2014. In August 2015, the Center refinanced the line of credit into a term loan with JP Morgan Chase Bank in the amount of \$424,288 and the principal is payable monthly, in the amount of \$5,238 plus a variable interest rate of LIBOR plus 3.855%. The loan is due in May 2022 and is secured by the Center's assigned receivables as described in the financing agreement.

Note 8 - Patient services revenue, net

For the year ended December 31, 2014, the Center recognized patient services revenue, net of contractual allowances and discounts (but before the provision for bad debts), for the following major payors:

Medicaid (includes Managed Care plans)	\$1,547,566
Medicare	104,709
Private insurance	539,015
Self-pay	150,352
New York State Uncompensated Care	276,748
New York State Managed Care Wraparound	<u>1,316,817</u>
Total	<u>\$3,935,207</u>

Medicaid and Medicare revenue is reimbursed to the Center at the net reimbursement rates as determined by each program. Reimbursement rates are subject to revisions under the provisions of reimbursement regulations. Adjustments for such revisions are recognized in the fiscal year incurred.

Note 9 - DHHS grants

For the year ended December 31, 2014, the Center recognized grant revenue from the DHHS as follows:

Grant Number	Grant Period	Total Grant	Revenue Recognized
6H80CS00410-12-06	04/01/13 - 03/31/14	\$2,332,679	\$ 627,494
6H80CS00410-13-04	04/01/14 - 03/31/15	2,792,629	1,889,626
6H76HA00173-18-01	07/01/13 - 04/30/14	365,937	165,756
2H76HA00173-19-00	07/01/14 - 04/30/15	435,929	290,619
4C8BCS23838-01-06	05/01/12 - 08/31/15	498,184	<u>30,827</u>
Total			<u>\$3,004,322</u>

Brooklyn Plaza Medical Center, Inc.

Notes to Financial Statements December 31, 2014

Note 10 - Pension plan

The Center maintains a defined contribution plan covering all employees meeting certain eligibility requirements. The Center matches up to 3% of eligible earnings. The Center may also make nonelective contributions to the plan. The Center did not make any contributions to the plan for the year ended December 31, 2014.

Note 11 - Commitments and contingencies

The Center has contracted with various funding agencies to perform certain healthcare services, and receives Medicaid and Medicare revenue from Federal and state governments. Reimbursements received under these contracts and payments from Medicaid and Medicare are subject to audit by Federal and state governments and other agencies. Upon audit, if discrepancies are discovered, the Center could be held responsible for refunding the amounts in question.

The Center maintains its medical malpractice coverage under the Federal Tort Claims Act ("FTCA"). FTCA provides malpractice coverage to eligible PHS-supported programs and applies to the Center and its employees while providing services within the scope of employment included under grant-related activities. The Attorney General, through the U.S. Department of Justice, has the responsibility for the defense of the individual and/or grantee for malpractice cases approved for FTCA coverage. The Center maintains gap insurance for activity outside the scope of FTCA coverage.

The healthcare industry is subject to voluminous and complex laws and regulations of Federal, state and local governments. Compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government healthcare program participation requirements, reimbursement laws and regulations, anti-kickback and anti-referral laws and false claims prohibitions. In recent years, government activity has increased with respect to investigations and allegations concerning possible violations of reimbursement, false claims, anti-kickback and anti-referral statutes and regulation by healthcare providers. The Center believes that it is in material compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. Upon audit, if discrepancies are discovered, the Center could be held responsible for refunding the amount in question.

The Center is involved in claims and legal action in the ordinary course of business. Management is of the opinion that the ultimate outcome of these matters would not have a material adverse impact on the financial position of the Center or the results of its operations or cash flows.

In 2012, the Center reached a settlement in principle with the New York Attorney General and the United States Attorney's Office, Eastern District of New York (the "government entities"), to resolve allegations that the Center operated a satellite clinic without having received an operating certificate from the New York State Department of Health. Rather

Brooklyn Plaza Medical Center, Inc.

**Notes to Financial Statements
December 31, 2014**

than proceed with the expense and risk of trial, the Center agreed to a settlement that provides a payment split evenly between the government entities of \$600,000, payable over five years. The settlement will also provide that the Center may make increased payments if certain unlikely events were to occur. The settlement agreement was executed and finalized in August 2014. The settlement was recorded in 2012 and the remaining liability has been reported on the statement of financial position as due to third-party payor for a total amount due of \$292,340 at December 31, 2014, of which \$97,447 is expected to be paid during the year ending December 31, 2015.

The Center operates out of three facilities, one of which is operated on a rent-free, month-to-month basis. For the year ended December 31, 2014, rent expense amounted to \$530,587.

Two facilities are operated under noncancelable operating leases expiring in 2017 and 2022, requiring future minimum payments as follows:

<u>Year ending December 31,</u>	<u>Amount</u>
2015	\$ 470,471
2016	480,802
2017	129,995
2018	100,720
2019	103,742
Thereafter	<u>310,912</u>
Total	<u>\$1,596,642</u>

Brooklyn Plaza Medical Center, Inc.

**Schedule of Expenditures of Federal Awards
December 31, 2014**

Federal Grantor/ Pass-through Grantor/Program Title	Federal CFDA Number	Pass-through Grantor's Number	Total Expenditures
U.S. Department of Health and Human Services:			
Health Center Cluster:			
Consolidated Health Centers	93.224	N/A	\$ 1,079,594
Affordable Care Act (ACA) Grants for New and Expanded Services Under the Health Center Program	93.527	N/A	<u>1,437,526</u>
Subtotal Health Center Cluster			2,517,120
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918	N/A	456,375
Affordable Care Act (ACA) Grants for Capital Development in Health Centers	93.526	N/A	30,827
Passed through City of New York: Department of Health and Mental Hygiene:			
Immunization Cooperative Agreements	93.268	N/A	<u>153,765</u>
Total Federal awards			<u><u>\$ 3,158,087</u></u>

See Notes to Schedule of Expenditures of Federal Awards.

Brooklyn Plaza Medical Center, Inc.

Notes to Schedule of Expenditures of Federal Awards December 31, 2014

Note 1 - General information

The accompanying schedule of expenditures of Federal awards (the "Schedule") presents the activities in all Federal awards of Brooklyn Plaza Medical Center, Inc. (the "Center"). All financial assistance received directly from the Federal agencies as well as financial assistance passed through other governmental agencies or nonprofit organizations is included on the Schedule.

Note 2 - Basis of presentation

The accompanying Schedule is presented using the accrual basis of accounting. The information in the Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. The amounts reported in the Schedule as expenditures may differ from certain financial reports submitted to Federal funding agencies due to those reports being submitted on either the cash or modified accrual basis of accounting.

Note 3 - Relationship to the financial statements

Federal expenditures are reported on the statement of functional expenses. In certain programs, the revenues reported in the basic financial statements may differ from the expenditures reported in the Schedule due to program expenditures exceeding grant or contract budget limitations or agency matching or in-kind contributions which are not included in the Schedule.

Note 4 - Subrecipients

Of the Federal expenditures presented in this Schedule, the Center provided no Federal awards to subrecipients for the year ended December 31, 2014.

Note 5 - Donated and nonmonetary assistance

Donated and nonmonetary assistance is reported in the Schedule at the fair value of the vaccinations received. The total Federal share of vaccinations distributed by the Center amounted to \$153,765. This amount is included on the Schedule.

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

To the Board of Directors
Brooklyn Plaza Medical Center, Inc.

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Brooklyn Plaza Medical Center, Inc. (the "Center"), which comprise the statement of financial position as of December 31, 2014, and the related statements of activities 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 October 22, 2015.

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") to determine the 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 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 entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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.

A handwritten signature in cursive script that reads "CohnReznick LLP".

New York, New York
October 22, 2015

Independent Auditor's Report on Compliance for Each Major Federal Program
and on Internal Control over Compliance Required by OMB Circular A-133

To the Board of Directors
Brooklyn Plaza Medical Center, Inc.

Report on Compliance for Each Major Federal Program

We have audited Brooklyn Plaza Medical Center, Inc.'s (the "Center") compliance with the types of compliance requirements described in the Office of Management and Budget ("OMB") *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Center's major Federal programs for the year ended December 31, 2014. The Center's major Federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its Federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Center's major Federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about the Center's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major Federal program. However, our audit does not provide a legal determination of the Center's compliance.

Opinion on Each Major Federal Program

In our opinion, the Center 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 December 31, 2014.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as Item 2014-001. Our opinion on each major Federal program is not modified with respect to these matters.

The Center's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Center's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Management of the Center is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Center's internal control over compliance with the types of requirements that could have a direct and material effect on each major Federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major Federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Center's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a certain deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as Item 2014-001, that we consider to be a significant deficiency.

The Center's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Center's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

CohnReznick LLP

New York, New York
October 22, 2015

Brooklyn Plaza Medical Center, Inc.

Schedule of Findings and Questioned Costs
Year Ended December 31, 2014

Section I - Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued: Unmodified
Internal control over financial reporting:
Material weakness(es) identified?
Significant deficiency(ies) identified?
Noncompliance material to financial statements noted?

Federal Awards:

Internal control over major programs:
Material weakness(es) identified?
Significant deficiency(ies) identified?

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 Section 510(a) of Circular A-133?

Identification of major programs:

Table with 2 columns: CFDA Number(s) and Name of Federal Program. Includes entries for 93.224, 93.527, and 93.918.

Dollar threshold used to distinguish between type A and B programs: \$300,000

Auditee qualified as low-risk auditee?

Brooklyn Plaza Medical Center, Inc.

**Schedule of Findings and Questioned Costs
Year Ended December 31, 2014**

Section II - Financial Statement Findings

None

Section III - Federal Award Findings and Questioned Costs - U.S. Department of Health and Human Services, Health Center Cluster (CFDA 93.224/93.527), Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease (CFDA 93.918)

Item 2014-001: Reporting

Criteria:

In accordance with grant requirements, quarterly Federal Financial Reports ("FFR") must be submitted 30 days after the end of each quarter.

Statement of Condition:

The Center submitted the *Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease* and the *Health Center Cluster* quarterly FFR's 7 to 10 days late for the quarters ended March 31, 2014 and September 30, 2014.

Questioned Costs:

None

Cause:

There was staff turnover and oversight by the Center.

Effect:

The Center did not comply with DHHS grant requirements.

Recommendation:

The Center should ensure that all reporting requirements are monitored and met on a timely basis.

Management's Response:

The Center has put controls in place going forward to ensure that the filing requirements are met on a timely basis.

Brooklyn Plaza Medical Center, Inc.

**Status of Prior Year's Findings
Year Ended December 31, 2014**

Item #	Description of Condition	Status of Corrective Action
2013-001	Proper documentation and process for disbursements	This has been corrected in the current year.
2013-002	Drawdown of grant funds	This has been corrected in the current year.
2013-003	Reporting	This has not been corrected in the current year. See 2014-001.