

CARE ALLIANCE
CONSOLIDATED FINANCIAL REPORT
OCTOBER 31, 2014 and 2013

CARE ALLIANCE

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Independent Auditors' Report

To the Board of Directors
Care Alliance
Cleveland, Ohio

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Care Alliance, which comprise the consolidated balance sheet as of October 31, 2014, and the related consolidated statements of operations 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 consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Care Alliance as of October 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 Matter

The consolidated financial statements of Care Alliance as of October 31, 2013, were audited by other auditors whose report dated March 25, 2014, expressed an unmodified opinion on those consolidated statements.

Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated January 26, 2015 on our consideration of Care Alliance'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 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 Care Alliance's internal control over financial reporting and compliance.



Cleveland, Ohio
January 26, 2015

CARE ALLIANCE
CONSOLIDATED BALANCE SHEETS

October 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,929,854	\$ 1,032,612
NMTC restricted funds	4,163,005	-
Contracts receivable	66,027	66,637
DHHS grant receivable	474,141	243,388
Patient services receivable, net	196,578	161,664
Contributions receivable	1,092,815	662,975
Prepaid expenses and other	33,001	39,956
Total current assets	7,955,421	2,207,232
CONTRIBUTIONS RECEIVABLE	1,248,084	27,000
NOTE RECEIVABLE	6,724,000	-
PROPERTY AND EQUIPMENT, NET	10,953,983	4,345,447
Total assets	\$ 26,881,488	\$ 6,579,679
 <u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES		
Accounts payable and accrued expenses - operations	\$ 187,585	\$ 280,971
Accounts payable - construction	819,758	172,803
Accrued compensation	237,638	200,758
Refundable advances	88,067	77,550
NMTC bridge loan payable	1,554,589	-
Total current liabilities	2,887,637	732,082
NMTC LOANS PAYABLE	9,700,000	-
PNC LOAN PAYABLE	554,666	-
FORGIVABLE LOAN PAYABLE	180,000	-
Total liabilities	13,322,303	732,082
NET ASSETS		
Unrestricted	8,975,177	4,887,093
Temporarily restricted	4,584,008	960,504
Total net assets	13,559,185	5,847,597
Total liabilities and net assets	\$ 26,881,488	\$ 6,579,679

The accompanying notes are an integral part of these financial statements.

CARE ALLIANCE

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS

Years Ended October 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
UNRESTRICTED REVENUES		
Contributions	\$ 35,807	\$ 43,120
DHHS grants	3,075,789	2,812,593
Patient services, net	1,860,419	1,276,416
Contract services	320,167	382,841
Special events, net	112,365	108,104
Donated services	554,558	458,407
Miscellaneous income	63,302	63,502
Interest income	413	23,760
Realized and unrealized loss on investments	-	(38,785)
Net assets released from restrictions	<u>460,870</u>	<u>565,809</u>
	6,483,690	5,695,767
EXPENSES		
Salaries and benefits	3,869,863	3,595,261
Other than personnel services	<u>1,713,184</u>	<u>1,875,711</u>
Total expenses	<u>5,583,047</u>	<u>5,470,972</u>
OPERATING INCOME PRIOR TO DEPRECIATION AND AMORTIZATION	900,643	224,795
DEPRECIATION AND AMORTIZATION	<u>292,956</u>	<u>221,691</u>
OPERATING INCOME PRIOR TO NONOPERATING REVENUES AND EXPENSES	607,687	3,104
NONOPERATING REVENUES AND EXPENSES		
DHHS grants - CIP funding	<u>3,480,397</u>	<u>928,978</u>
CHANGE IN UNRESTRICTED NET ASSETS	4,088,084	932,082

The accompanying notes are an integral part of these financial statements.

CARE ALLIANCE

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS

Years Ended October 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
CHANGE IN UNRESTRICTED NET ASSETS	\$ 4,088,084	\$ 932,082
TEMPORARILY RESTRICTED NET ASSETS		
Contributions	1,374,374	501,154
Contributions - nonoperating	2,710,000	661,825
Net assets released from restrictions	<u>(460,870)</u>	<u>(565,809)</u>
	<u>3,623,504</u>	<u>597,170</u>
CHANGE IN NET ASSETS	7,711,588	1,529,252
NET ASSETS – BEGINNING OF YEAR	<u>5,847,597</u>	<u>4,318,345</u>
NET ASSETS – END OF YEAR	<u>\$ 13,559,185</u>	<u>\$ 5,847,597</u>

The accompanying notes are an integral part of these financial statements.

CARE ALLIANCE

CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES

Years Ended October 31, 2014 and 2013

	Program Services	General and Administrative	Fundraising	Total
Year Ended October 31, 2014				
Salaries and wages	\$ 2,695,339	\$ 349,174	\$ 56,973	\$ 3,101,486
Fringe benefits	670,405	83,798	14,174	768,377
Consultants and professional services	411,450	28,268	6,061	445,779
Staff training	6,948	5,105	100	12,153
Consumable supplies	263,935	13,367	1,208	278,510
Insurance	21,349	2,554	326	24,229
Telephone	56,501	11,130	898	68,529
Repairs and maintenance	49,889	6,523	926	57,338
Printing, postage, publication and recruitment	22,529	2,633	672	25,834
Travel, conferences and meetings	45,237	10,142	3,140	58,519
Occupancy	150,686	16,966	2,359	170,011
Donated services	496,612	57,946	-	554,558
Depreciation and amortization	229,979	58,437	4,540	292,956
Other	19,957	(2,529)	296	17,724
Total expense	<u>\$ 5,140,816</u>	<u>\$ 643,514</u>	<u>\$ 91,673</u>	<u>\$ 5,876,003</u>
Year Ended October 31, 2013				
Salaries and wages	\$ 2,513,384	\$ 315,908	\$ 71,716	\$ 2,901,008
Fringe benefits	603,582	75,934	14,737	694,253
Consultants and professional services	529,348	52,260	12,310	593,918
Staff training	7,797	7,514	88	15,399
Consumable supplies	400,893	11,573	1,556	414,022
Insurance	16,334	1,852	242	18,428
Telephone	61,829	11,024	973	73,826
Repairs and maintenance	46,283	6,564	931	53,778
Printing, postage, publication and recruitment	14,869	1,184	245	16,298
Travel, conferences and meetings	53,033	8,400	2,784	64,217
Occupancy	114,968	16,888	2,390	134,246
Donated services	431,191	27,216	-	458,407
Depreciation and amortization	174,591	42,782	4,318	221,691
Other	20,737	12,086	349	33,172
Total expense	<u>\$ 4,988,839</u>	<u>\$ 591,185</u>	<u>\$ 112,639</u>	<u>\$ 5,692,663</u>

The accompanying notes are an integral part of these financial statements.

CARE ALLIANCE

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended October 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 7,711,588	\$ 1,529,252
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	292,956	221,691
Loss on investments	-	20,985
Changes in operating assets and liabilities:		
Contributions receivable	(1,650,924)	(563,000)
DHHS grants receivable	(230,753)	(239,613)
Patient services receivable, net	(34,914)	25,154
Contracts receivable	610	(37,709)
Prepaid expenses and other	6,955	7,987
Accounts payable and accrued expenses	553,569	72,699
Accrued compensation	36,880	(1,066)
Refundable advances	10,517	7,450
Total adjustments	<u>(1,015,104)</u>	<u>(485,422)</u>
Net cash provided by operating activities	6,696,484	1,043,830
CASH FLOWS FROM INVESTING ACTIVITIES		
Net change in certificates of deposit	-	163,361
Purchase of investments	-	(344,966)
Proceeds from sale of investments	-	1,054,158
Increase in NMTC restricted cash	(4,163,005)	-
Increase in note receivable	(6,724,000)	-
Capitalized cost related to the Central Neighborhood Clinic	<u>(6,901,492)</u>	<u>(1,755,627)</u>
Net cash used by investing activities	(17,788,497)	(883,074)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from NMTC loans payable	9,700,000	-
Net proceeds from NMTC bridge loan	1,554,589	-
Proceeds from forgivable loan	180,000	-
Proceeds from PNC loan	<u>554,666</u>	-
Net cash provided by financing activities	<u>11,989,255</u>	-
NET INCREASE IN CASH AND CASH EQUIVALENTS	897,242	160,756
CASH AND CASH EQUIVALENTS – BEGINNING	<u>1,032,612</u>	<u>871,856</u>
CASH AND CASH EQUIVALENTS – ENDING	<u>\$ 1,929,854</u>	<u>\$ 1,032,612</u>
Supplemental disclosure of cash flow information:		
Cash paid during the year for:		
Interest (including capitalized interest of \$153,197 and \$-0- at October 31, 2014 and 2013, respectively)	\$ 153,197	\$ -

The accompanying notes are an integral part of these financial statements.

CARE ALLIANCE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Organization

Care Alliance (the "Agency") was organized in Ohio as a not-for-profit corporation to provide healthcare and related services to people who need them most, regardless of their ability to pay, in a manner that is cost effective and that empowers people to improve their quality of life. The Agency serves individuals in the Cleveland, Ohio area.

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

In 2014, the Agency formed a Special Purpose Entity, Alliance for a Bright Future, Inc., that is considered a Qualified Active Low-Income Community Business.

Note 2. Significant Accounting Policies

A. **Basis of Accounting** – The consolidated financial statements of the Agency have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America and include the accounts of the Agency and Alliance for a Bright Future, Inc., its wholly owned subsidiary. All significant intercompany activity has been eliminated in consolidation.

B. **Basis of Presentation** – The consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. The Agency has reported information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted. As of October 31, 2014 and 2013, the Agency did not have any permanently restricted net assets.

Unrestricted net assets represent net assets that are not subject to donor-imposed restrictions. Contributions are considered to be available for unrestricted use unless specifically restricted by the donor.

Temporarily restricted net assets result from timing differences between the receipt of funds and the incurrence of the related expenses. The Agency reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of operations and changes in net assets as net assets released from restrictions. However, donor-restricted contributions and investment earnings whose restrictions are met in the same period are reported as unrestricted support.

C. **Cash and Cash Equivalents** – The Agency maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Agency has not experienced any losses in such accounts. All highly liquid investments with maturities of three months or less when purchased are considered to be cash equivalents.

D. **Investments** – These amounts are reported at fair value with any realized and unrealized gains and losses reported in the consolidated statements of operations and changes in net assets. Investment income is recognized as revenue in the period it is earned and realized and unrealized gains and losses are recognized as changes in net assets in the accounting period in which they occur. Investment income and gains and losses are reported as increases or decreases in unrestricted net assets unless a donor restricts their use.

CARE ALLIANCE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 2. Significant Accounting Policies (Continued)

- E. Property and Equipment – Property and equipment is recorded at cost or, if donated, at the fair value at the date of donation. Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets ranging from 5 to 25 years. Building improvements are amortized on a straight-line basis over the estimated useful life of the improvement. The Agency capitalizes all purchases of property and equipment equal to or in excess of \$1,000.

The Agency adopted a policy of imputing time restrictions on long-lived assets acquired with gifts of cash or other assets in connection with a capital campaign. For long-lived assets with explicit restrictions, depreciation is recorded over the assets' useful life and the net assets are released from temporarily restricted to unrestricted in the consolidated statements of operations and changes in net assets when the asset is placed in service.

According to federal regulations, any property and equipment obtained through federal funds is subject to a lien by the federal government. As long as the Agency maintains its tax exempt status, or so long as the property and equipment are used for their intended purpose, the Agency is not required to reimburse the federal government. If the stated requirements are not met, the Agency would be obligated to the federal government in an amount equal to the fair value of the property and equipment.

- F. Contributions – Contributions are recorded at fair value when received or pledged. Amounts 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 assets are released to unrestricted net assets and reported in the consolidated statements of operations and changes in net assets as net assets released from restriction.
- G. Grants Receivable – Grants receivable consist of costs under the grant agreements which were incurred prior to year-end for which payment has not been received.
- H. Patient Services Receivable and Allowance for Doubtful Accounts – Patient services receivable are reported at their outstanding unpaid principal balances reduced by an allowance for doubtful accounts. The Agency estimates doubtful accounts based on historical bad debts, factors related to specific payors' ability to pay and current economic trends. The Agency writes off accounts receivable against the allowance when a balance is determined to be uncollectible. Recoveries of receivables previously written off are recorded when received.
- I. Grant 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. Grants and contracts awarded for the acquisition of long-lived assets are reported as unrestricted nonoperating 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 October 31, 2014, the Agency has received grants and contracts from governmental entities in the aggregate amount of \$1,744,099 that have not been recorded in these consolidated financial statements as they have not been earned. These grants require the Agency to provide certain healthcare services and to perform certain capital development during specified periods. If such requirements are not performed during the periods, the governmental entities are not obligated to expend the funds allotted under the grants.

CARE ALLIANCE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 2. Significant Accounting Policies (Continued)

- J. Patient Services Revenue – Patient services revenue is reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered. Patient services revenue is recorded at published charges with contractual allowances deducted to arrive at net patient services revenue.
- K. Donated Services – Contributions of donated services are reported as revenue and expenses at fair value if such services create or enhance nonfinancial assets, require special skills and are provided by individuals possessing such special skills, or would typically need to be purchased by the Agency if they had not been donated. The Agency received donated services from numerous professionals, from space costs and from laboratory testing during the year in connection with certain program activities.
- L. Use of Estimates – The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.
- M. Tax Status – The Agency is incorporated as a not-for-profit corporation under the laws of the State of Ohio and is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (the "Code"). The Agency adopted the accounting standard on accounting for uncertainty in income taxes, which addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the consolidated financial statements. Under this guidance, the Agency may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. Examples of tax positions include the tax-exempt status of the Agency and various positions related to the potential sources of unrelated business taxable income ("UBTI"). The tax benefits recognized in the consolidated financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The guidance on accounting for uncertainty in income taxes also addresses derecognition, classification, interest and penalties on income taxes, and accounting in interim periods. At October 31, 2014 and 2013, there were no unrecognized tax benefits identified or recorded as liabilities. With few exceptions, the Agency is no longer subject to tax examinations by tax authorities for years prior to 2010.
- N. Reclassifications – Certain reclassifications of 2013 amounts have been made to conform to the 2014 presentation.
- O. Subsequent Events – The Agency has evaluated subsequent events for potential recognition and/or disclosure through January 26, 2015, the date the consolidated financial statements were available to be issued.

CARE ALLIANCE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 3. Restricted Funds

Restricted cash accounts were established in accordance with the CDE loan agreements to fund the payment of management and servicing fees. The balances in each cash reserve account at October 31, 2014 were as follows:

CDE cash collateral account	\$ 250,012
CDE asset management reserve	366,738
CDE asset residual payment	3,514,716
QLICI loan - restricted funding leveraged loan account	<u>31,539</u>
	<u>\$ 4,163,005</u>

Note 4. Patient Services Receivable, Net

Patient services receivable, net, consist of the following at October 31:

	<u>2014</u>	<u>2013</u>
Medicaid	\$ 348,629	\$ 157,487
Medicare	12,925	32,065
Ohio uninsured	<u>-</u>	<u>39,738</u>
	361,554	229,290
Less contractual allowance and allowance for doubtful accounts	<u>164,976</u>	<u>67,626</u>
	<u>\$ 196,578</u>	<u>\$ 161,664</u>

Note 5. Contributions Receivable

Contributions receivable consist of the following at October 31:

	<u>2014</u>	<u>2013</u>
Center for Health Affairs	\$ 800,000	\$ -
St. Luke's	770,000	-
United Way Services	249,469	126,975
Prentiss	200,000	-
Mt. Sinai	166,667	-
Enterprise	60,000	-
Reinberger	50,000	-
Board of Trustees/executive staff	31,750	43,000
American Cancer Society	11,063	-
Sisters of Charity	1,950	-
Cleveland Foundation	-	500,000
Higley Foundation	<u>-</u>	<u>20,000</u>
	<u>\$ 2,340,899</u>	<u>\$ 689,975</u>

CARE ALLIANCE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 5. Contributions Receivable (Continued)

Contributions receivable are scheduled to be received as follows:

	<u>2014</u>	<u>2013</u>
Due to be received in less than 1 year	\$ 1,092,815	\$ 662,975
Due to be received in 1-5 years	1,248,084	27,000

Note 6. Note Receivable

To facilitate the Federal New Market Tax Credit structure, on April 11, 2014, the Agency loaned a total of \$6,724,000 in the form of a note to an unrelated entity. The note bears interest at the rate of 1.0% per annum and is payable quarterly. The note matures April 11, 2041 with interest only payments to be paid quarterly until June 10, 2021 at which time principal and interest payments will be due at the amount of \$92,840 per quarter. The related receivable balance is included in NMTC loan receivable in the consolidated balance sheets.

Note 7. Property and Equipment, Net

Property and equipment, net, consists of the following at October 31:

	<u>2014</u>	<u>2013</u>
Land	\$ 250,000	\$ 250,000
Building	2,015,183	1,993,183
Building improvements	793,320	776,249
Equipment	1,796,849	1,728,903
Vehicles	106,153	92,433
Construction in process	<u>7,688,053</u>	<u>907,298</u>
	12,649,558	5,748,066
Less accumulated depreciation	<u>1,695,575</u>	<u>1,402,619</u>
	<u>\$ 10,953,983</u>	<u>\$ 4,345,447</u>

Note 8. Loans Payable

During 2014, the Agency secured an NMTC bridge loan with an unrelated entity for \$5,213,519 to be utilized to fund a project in connection with the construction of a new health facility in the Central neighborhood. The project is held in Alliance for a Bright Future, Inc., a supporting nonprofit organization of the Agency. The project contains a fundraising component, utilizes Federal New Market Tax Credit funding and federal capital grants and is expected to be completed by the end of January 2015. As of October 31, 2014, there was a \$1,554,589 balance on the note payable. Interest paid as of October 31, 2014 totaled \$110,908 and was capitalized.

Alliance for a Bright Future, Inc. received two loans totaling \$9,700,000 from an unrelated Community Development Entity. The proceeds of the loans were used to finance the Central construction project. The loans bear interest at the rate of .70% per annum and are payable quarterly. The loans mature April 11, 2049 with interest only payments to be paid quarterly until March 1, 2021 at which time principal and interest payments will be due in the amount of \$95,448 per quarter. The loans are recorded in NMTC loans payable in the consolidated balance sheets. Interest paid as of October 31, 2014 totaled \$31,875 and was capitalized.

CARE ALLIANCE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 8. Loans Payable (Continued)

In October 2013, the Agency entered into a \$1.25 million credit facility agreement with PNC to partially fund the Agency's non-federal portion of capital expenditures for its Central Neighborhood Clinic construction project. Loan proceeds are a "last in basis," as the Agency must expend the first \$1.25 million of project costs. The loan is interest only for the first 18 months at LIBOR plus 350 basis points, then converts to a fixed annual rate term loan amortized over ten years. The loan matures on April 30, 2020. As of October 31, 2014, there was a \$554,666 balance on the line of credit. Interest paid as of October 31, 2014 totaled \$10,413 and was capitalized.

Note 9. Forgivable Loan

The Agency has accepted the conditions of a \$180,000 Vacant Property Initiative loan commitment dated September 27, 2013 from the City of Cleveland. This is a forgivable loan, provided that the Agency creates 30 jobs at the Central Neighborhood Clinic. The loan will be fully forgiven in five years. The loan term is five years, at a fixed annual interest rate of 2%, with deferred interest and principal payments. As of October 31, 2014, there was a \$180,000 balance on the loan.

Note 10. DHHS Grants

For the years ended October 31, 2014 and 2013, the Agency received the following grants from the DHHS:

Grant Number	Grant Period	Total Grant	2014 Revenue Recognized	2013 Revenue Recognized
Operating				
6H76HA00607-15-00	05/01/14 - 04/30/15	\$ 23,563	\$ 115,782	\$ -
6H76HA00607-14-01	07/01/13 - 04/30/14	192,969	115,781	77,188
5H76HA00607-13-00	07/01/12 - 06/30/13	243,750	-	162,500
1P06HA28043-01-00	09/01/14 - 08/31/15	100,000	-	-
6H80CS00029-13-04	11/01/13 - 10/31/14	3,121,222	2,683,530	-
6H80CS00029-12-05	11/01/12 - 10/31/13	2,733,602	<u>160,696</u>	<u>2,572,905</u>
			<u>\$ 3,075,789</u>	<u>\$ 2,812,593</u>
Non-Operating - CIP Funding				
1 C8BCS23839-01-00	05/01/12-04/30/14	500,000	\$ -	\$ 500,000
1 C8ACS23663-01-00	05/01/12-04/30/15	5,000,000	<u>3,480,397</u>	<u>428,978</u>
			<u>\$ 3,480,397</u>	<u>\$ 928,978</u>

CARE ALLIANCE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 11. Patient Services Revenue, Net

For the years ended October 31, 2014 and 2013, patient services revenue, net, consists of the following:

	Gross Charges	Contractual Allowances/ Sliding Fee Discounts	2014 Net Revenue	2013 Net Revenue
Medicaid	\$ 2,899,249	\$ 1,296,299	\$ 1,602,950	\$ 1,017,781
Medicare	176,402	64,992	111,410	68,339
Other third-party payors	149,841	117,292	32,549	25,810
Ohio uninsured	71,542	-	71,542	119,212
Self-pay	<u>1,745,067</u>	<u>1,703,099</u>	<u>41,968</u>	<u>45,274</u>
	<u>\$ 5,042,101</u>	<u>\$ 3,181,682</u>	<u>\$ 1,860,419</u>	<u>\$ 1,276,416</u>

The Agency is a federally qualified healthcare center, which is a type of provider defined by Section 330 of the Public Health Services Act. The Agency provides care to patients utilizing a sliding-fee scale with discounts based on patient family size and income in accordance with federal poverty guidelines. The Agency is open to all, regardless of their ability to pay. The amount not recovered under the sliding-fee scale is not reported as revenue as it is not expected to be paid. The Agency maintains records to identify and monitor the level of sliding fee discounts it provides. The amount of sliding fee discounts provided during the years ended October 31, 2014 and 2013 amounted to \$1,703,099 and \$2,764,973, respectively.

Medicaid and Medicare revenue is reimbursed to the Agency at the net reimbursement rates determined by Medicaid and Medicare. Reimbursement rates are subject to revisions under the provisions of reimbursement regulations. Adjustments for such revisions are recognized in the fiscal year incurred. Laws and regulations governing the Medicaid and Medicare programs are complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

Note 12. Temporarily Restricted Net Assets

Temporarily restricted net assets consist of the following:

	<u>2014</u>	<u>2013</u>
Capital campaign - building	\$ 3,371,825	\$ 661,825
Capital campaign - operating	925,000	-
Homeless program	75,563	171,626
Homeless program - United Way	<u>211,620</u>	<u>127,053</u>
	<u>\$ 4,584,008</u>	<u>\$ 960,504</u>

CARE ALLIANCE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 13. Special Events Revenue

Special events revenue consists of the following:

	<u>2014</u>	<u>2013</u>
Special events revenue	\$ 145,565	\$ 136,152
Special events expenses	<u>33,200</u>	<u>28,048</u>
	<u>\$ 112,365</u>	<u>\$ 108,104</u>

Note 14. Pension Plan

The Agency has a noncontributory defined contribution pension plan covering all full-time employees over age 21 with one or more years of service. Contributions and costs are determined at 7.5% of each eligible employee's salary. For the years ended October 31, 2014 and 2013, such costs amounted to \$178,975 and \$157,668, respectively.

Note 15. Commitments and Contingencies

The Agency has contracted with various funding agencies to perform certain healthcare services and receives Medicaid and Medicare revenue from the state and federal governments. Reimbursements received under these contracts and payments under Medicaid and Medicare are subject to audit by the federal and state governments and other agencies. The Agency believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation, as well as significant regulatory action including fines, penalties and exclusion from the Medicare and Medicaid programs.

The Agency maintains its medical malpractice coverage under the Federal Tort Claims Act ("FTCA"). FTCA provides malpractice coverage to eligible Public Health Service supported programs and applies to the Agency 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 Agency had construction commitments of approximately \$2,808,584 as of October 31, 2014 related to its Central Neighborhood Clinic construction project.

CARE ALLIANCE
OMB CIRCULAR A-133 AUDIT REQUIREMENTS

CARE ALLIANCE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended October 31, 2014

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Grant Number</u>	<u>CFDA Number</u>	<u>Total Expenditures</u>
U.S. Department of Health and Human Services			
Direct program:			
Affordable Care Act Grants for New and Expanded Services under the Health Center Program	H80CS00029	93.527	\$ 1,810,291
	H80CS00029	93.224	1,033,935
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	H76HA00607	93.918	231,563
ADA - Grants to Health Center Programs Capital Development Program	C8ACS23663	93.526	3,480,397
Passed through City of Cleveland Department of Development:			
Emergency Shelter Grant	N/A	14.231	15,000
Passed through Cuyahoga County District Board of Health:			
Ryan White Part A Program	N/A	93.914	<u>50,518</u>
Total expenditures of federal awards			<u>\$ 6,621,704</u>

The accompanying notes are an integral part of this schedule.

CARE ALLIANCE

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended October 31, 2014

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of Care Alliance under programs of the federal government for the year ended October 31, 2014. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of Care Alliance, it is not intended to and does not present the financial position, changes in net assets or cash flows of Care Alliance.

Note 2. Summary of Significant Accounting Policies

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



To the Board of Directors
Care Alliance
Cleveland, Ohio

Independent Auditors' 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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the consolidated financial statements of Care Alliance, which comprise the consolidated balance sheet as of October 31, 2014, and the related consolidated statements of operations 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 January 26, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Care Alliance'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 Care Alliance's internal control. Accordingly, we do not express an opinion on the effectiveness of Care Alliance's internal control over financial reporting.

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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the 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.

Independent Auditors' 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 (Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Care Alliance's financial statements are free of 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 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 Care Alliance's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Meloney + Novotny LLC

Cleveland, Ohio
January 26, 2015

To the Board of Directors
Care Alliance
Cleveland, Ohio

Independent Auditors' Report on Compliance for Each Major Program
and on Internal Control Over Compliance Required by OMB Circular A-133

Report on Compliance for Each Major Federal Program

We have audited Care Alliance's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on each of Care Alliance's major federal programs for the year ended October 31, 2014. Care Alliance'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 each of its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for Care Alliance'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 Care Alliance'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 on Care Alliance's compliance.

Opinion on Each Major Federal Program

In our opinion, Care Alliance 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 October 31, 2014.

Independent Auditors' Report on Compliance for Each Major Program
and on Internal Control Over Compliance Required by OMB Circular A-133 (Continued)

Report on Internal Control Over Compliance

Management of Care Alliance 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 Care Alliance's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance for Care Alliance's major federal programs 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 Care Alliance'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 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 might exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses.

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.

Meloney + Novotny LLC

Cleveland, Ohio
January 26, 2015

CARE ALLIANCE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended October 31, 2014

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:		<u>Unmodified</u>	
Internal control over financial reporting:			
Material weakness(es) identified?	_____ yes	<u> X</u>	no
Significant deficiency(ies) identified?	_____ yes	<u> X</u>	none reported
Noncompliance material to financial statements noted?	_____ yes	<u> X</u>	no

Federal Awards

Internal control over major programs:			
Material weakness(es) identified?	_____ yes	<u> X</u>	no
Significant deficiency(ies) identified?	_____ yes	<u> X</u>	none reported
Type of auditor's report issued on compliance for major programs:		<u>Unmodified</u>	
Any audit findings disclosed that are required to be reported in accordance with Section .510(a) of Circular A-133?	_____ yes	<u> X</u>	no

Identification of major programs:

CFDA Numbers

93.527, 93.224
93.526

Name of Federal Program or Cluster

ACA Grants for New and Expanded Services
ADA - Grants to Health Center Programs

Dollar threshold used to distinguish between Type A and Type B programs:

\$ 300,000

Auditee qualified as a low risk auditee?	<u> X</u>	yes	_____	no
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CARE ALLIANCE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

Year Ended October 31, 2014

Section II - Financial Statement Findings

No matters are reported.

Section III - Federal Award Findings and Questioned Costs

No matters are reported.