

# Crusaders Central Clinic Association

**Independent Auditor's Reports and Financial Statements**

**June 30, 2014 and 2013**

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**Crusaders Central Clinic Association**  
**June 30, 2014 and 2013**

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## Independent Auditor's Report

Board of Directors  
Crusaders Central Clinic Association  
Rockford, Illinois

### Report on the Financial Statements

We have audited the accompanying financial statements of Crusaders Central Clinic Association (the "Organization"), which comprise the balance sheets as of June 30, 2014 and 2013, and the related statements of operations, changes in net assets and cash flows for the years then ended, and the related notes to the financial statements.

### *Management's Responsibility for the Financial Statements*

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

### *Auditor's Responsibility*

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

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

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

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Crusaders Central Clinic Association as of June 30, 2014 and 2013, and the results of its operations, the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Supplementary Information***

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards required by OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, as listed in the table of contents, is presented for purposes of additional analysis 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.

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 22, 2014, on our consideration of the Organization's internal control over financial reporting and 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 Crusaders Central Clinic Association's internal control over financial reporting and compliance.

**BKD, LLP**

Springfield, Missouri  
December 22, 2014

# Crusaders Central Clinic Association

## Balance Sheets

June 30, 2014 and 2013

### Assets

	<u>2014</u>	<u>2013</u>
<b>Current Assets</b>		
Cash	\$ 6,261,897	\$ 5,749,700
Patient accounts receivable, net of allowance; 2014 - \$2,061,138, 2013 - \$1,475,989	2,144,049	2,163,382
Grants and other receivables	1,059,292	1,019,138
Supplies	455,195	453,629
Prepaid expenses and other	156,848	157,038
Total current assets	<u>10,077,281</u>	<u>9,542,887</u>
<b>Assets Limited As To Use</b>		
Externally restricted	88,936	82,945
Internally designated	12,730,350	8,750,000
	<u>12,819,286</u>	<u>8,832,945</u>
<b>Property and Equipment, At Cost</b>		
Land and land improvements	1,480,490	1,480,490
Buildings and leasehold improvements	20,565,398	20,375,261
Equipment	6,576,339	6,169,170
	<u>28,622,227</u>	<u>28,024,921</u>
Less accumulated depreciation	14,831,137	12,893,126
	<u>13,791,090</u>	<u>15,131,795</u>
<b>Interest in Net Assets of Crusaders Health Foundation</b>	<u>3,138,899</u>	<u>2,542,831</u>
Total assets	<u>\$ 39,826,556</u>	<u>\$ 36,050,458</u>

### Liabilities and Net Assets

<b>Current Liabilities</b>		
Accounts payable	\$ 864,546	\$ 954,025
Accrued expenses	2,505,815	2,371,231
Total current liabilities	<u>3,370,361</u>	<u>3,325,256</u>
<b>Net Assets</b>		
Unrestricted	33,058,310	29,925,284
Temporarily restricted	2,476,157	1,927,678
Permanently restricted	921,728	872,240
Total net assets	<u>36,456,195</u>	<u>32,725,202</u>
Total liabilities and net assets	<u>\$ 39,826,556</u>	<u>\$ 36,050,458</u>

**Crusaders Central Clinic Association**  
**Statements of Operations**  
**Years Ended June 30, 2014 and 2013**

	<b>2014</b>	<b>2013</b>
<b>Unrestricted Revenues, Gains and Other Support</b>		
Net patient service revenue (net of contractual discounts and allowances)	\$ 28,278,626	\$ 26,409,148
Provision for uncollectible accounts	1,142,481	843,591
Net patient service revenue less provision for uncollectible accounts	27,136,145	25,565,557
Federal grant revenue	5,154,909	5,025,519
Other grant and contract revenue	342,017	271,673
Contributions	644,052	720,696
Other	641,706	675,741
Total unrestricted revenues, gains and other support	33,918,829	32,259,186
<b>Expenses and Losses</b>		
Salaries and wages	17,044,330	16,315,259
Employee benefits	3,220,663	3,242,963
Purchased services and professional fees	2,850,071	2,306,249
Supplies and other	6,274,634	6,055,106
Depreciation	1,940,212	1,924,206
Total expenses and losses	31,329,910	29,843,783
<b>Operating Income</b>	2,588,919	2,415,403
<b>Other Income</b>		
Investment return	198,088	3,866
<b>Excess of Revenues Over Expenses</b>	2,787,007	2,419,269
Grants for acquisition of property and equipment	100,000	-
Contributions for acquisition of property and equipment	246,019	442,635
<b>Increase in Unrestricted Net Assets</b>	\$ 3,133,026	\$ 2,861,904

**Crusaders Central Clinic Association**  
**Statements of Changes in Net Assets**  
**Years Ended June 30, 2014 and 2013**

	<b>2014</b>	<b>2013</b>
<b>Unrestricted Net Assets</b>		
Excess of revenues over expenses	\$ 2,787,007	\$ 2,419,269
Grants for acquisition of property and equipment	100,000	-
Contributions for acquisition of property and equipment	246,019	442,635
Increase in unrestricted net assets	3,133,026	2,861,904
<b>Temporarily Restricted Net Assets</b>		
Change in interest in net assets of Crusaders Health Foundation	546,580	239,039
Contributions	1,899	28,970
Increase in temporarily restricted net assets	548,479	268,009
<b>Permanently Restricted Net Assets</b>		
Change in interest in net assets of Crusaders Health Foundation	49,488	33,091
Increase in permanently restricted net assets	49,488	33,091
<b>Change in Net Assets</b>	3,730,993	3,163,004
<b>Net Assets, Beginning of Year</b>	32,725,202	29,562,198
<b>Net Assets, End of Year</b>	\$ 36,456,195	\$ 32,725,202

**Crusaders Central Clinic Association**  
**Statements of Cash Flows**  
**Years Ended June 30, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
<b>Operating Activities</b>		
Change in net assets	\$ 3,730,993	\$ 3,163,004
Items not requiring (providing) operating cash flows		
Depreciation	1,940,212	1,924,206
Change in interest in net assets of Crusaders Health Foundation	(596,068)	(272,130)
Grants for acquisition of property and equipment	(100,000)	-
Contributions for acquisition of property and equipment	(246,019)	(442,635)
Changes in		
Patient accounts receivable, net	19,333	1,687,341
Accounts payable and accrued expenses	167,236	560,083
Other current assets and liabilities	41,415	(743,036)
	<u>4,957,102</u>	<u>5,876,833</u>
Net cash provided by operating activities		
<b>Investing Activities</b>		
Acquisition of assets limited as to use	(4,069,286)	(4,500,000)
Purchase of property and equipment	(721,638)	(592,096)
	<u>(4,790,924)</u>	<u>(5,092,096)</u>
Net cash used in investing activities		
<b>Financing Activities</b>		
Proceeds from grants for acquisition of property and equipment	100,000	-
Proceeds from contributions for acquisition of property and equipment	246,019	442,635
Principal payments on long-term debt	-	(151,521)
	<u>346,019</u>	<u>291,114</u>
Net cash provided by financing activities		
<b>Increase in Cash</b>	512,197	1,075,851
<b>Cash, Beginning of Year</b>	<u>5,749,700</u>	<u>4,673,849</u>
<b>Cash, End of Year</b>	<u>\$ 6,261,897</u>	<u>\$ 5,749,700</u>
<b>Supplemental Cash Flows Information</b>		
Interest paid	\$ -	\$ 1,436
Property and equipment acquisitions in accounts payable	\$ 82,851	\$ 204,982

# **Crusaders Central Clinic Association**

## **Notes to Financial Statements**

**June 30, 2014 and 2013**

### **Note 1: Nature of Operations and Summary of Significant Accounting Policies**

#### ***Nature of Operations***

Crusaders Central Clinic Association (the "Organization") primarily earns revenues by providing health care services through clinics and programs located in Rockford, Illinois, and surrounding areas.

#### ***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 the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### ***Cash***

At June 30, 2014, the Organization's cash accounts exceeded federally insured limits by approximately \$10,210,000.

#### ***Assets Limited As To Use***

Assets limited as to use include (1) assets externally restricted for unemployment claims and (2) internally designated assets set aside by the Board of Directors for future capital improvements or operating needs over which the Board retains control and may at its discretion subsequently use for other purposes.

#### ***Investments and Investment Return***

Investments in certificates of deposit are valued at cost. All other investments are valued at fair value. Investment return includes dividend, interest and other investment income; realized and unrealized gains and losses on investments carried at fair value; and realized gains and losses on other investments. Investment return is reported in the statements of operations as a component of unrestricted net assets.

#### ***Patient Accounts Receivable***

Accounts receivable are reduced by an allowance for doubtful accounts. In evaluating the collectibility of accounts receivable, the Organization analyzes its past history and identifies trends for each of its major payer sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for uncollectible accounts. Management regularly reviews data about these major payer sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts.

# **Crusaders Central Clinic Association**

## **Notes to Financial Statements**

**June 30, 2014 and 2013**

For receivables associated with services provided to patients who have third-party coverage, the Organization analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for uncollectible accounts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payer has not yet paid, or for payers 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 Organization records a significant provision for uncollectible accounts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated or provided by sliding fee or other policy) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

The Organization's allowance for doubtful accounts for self-pay patients increased from 92% of self-pay accounts receivable at June 30, 2013, to 94% of self-pay accounts receivable at June 30, 2014. In addition, the Organization's write-offs increased approximately \$1,299,000 from approximately \$501,000 for the year ended June 30, 2013, to approximately \$1,800,000 for the year ended June 30, 2014.

### ***Supplies***

The Organization states supply inventories at the lower of cost, determined using the first-in, first-out method, or market.

### ***Property and Equipment***

Property and equipment acquisitions are recorded at cost and are depreciated on a straight-line basis over the estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives.

Certain property and equipment have been purchased with grant funds received from the U.S. Department of Health and Human Services. Such items or a portion thereof may be reclaimed by the federal government if not used to further the grant's objectives.

Donations of property and equipment are reported at fair value as an increase in unrestricted net assets unless use of the assets is restricted by the donor. Monetary gifts that must be used to acquire property and equipment are reported as restricted support. The expiration of such restrictions is reported as an increase in unrestricted net assets when the donated asset is placed in service.

# **Crusaders Central Clinic Association**

## **Notes to Financial Statements**

**June 30, 2014 and 2013**

### ***Long-Lived Asset Impairment***

The Organization evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value.

No asset impairment was recognized during the years ended June 30, 2014 and 2013.

### ***Interest in Net Assets of Crusaders Health Foundation***

Crusaders Health Foundation (the "Foundation") and the Organization are financially interrelated organizations. The Foundation seeks private support for and holds net assets on behalf of the Organization. The Organization accounts for its interest in the net assets of the Foundation (Interest) in a manner similar to the equity method. Changes in the Interest are included in change in net assets. Transfers of assets between the Foundation and the Organization are recognized as increases or decreases in the Interest.

### ***Temporarily and Permanently Restricted Net Assets***

Temporarily restricted net assets are those whose use by the Organization has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the Organization in perpetuity.

### ***Net Patient Service Revenue***

The Organization has agreements with third-party payers that provide for payments to the Organization at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered and includes estimated retroactive revenue adjustments. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such estimated amounts are revised in future periods as adjustments become known.

### ***Contributions***

Unconditional gifts expected to be collected within one year are reported at their net realizable value. Unconditional gifts expected to be collected in future years are initially reported at the present value of estimated future cash flows. The resulting discount is amortized using the level-yield method and is reported as contribution revenue.

Gifts of cash and other assets received without donor stipulations are reported as unrestricted revenue and net assets. Gifts received with a donor stipulation that limits their use are reported as temporarily or permanently restricted revenue and net assets. When a donor stipulated time

# **Crusaders Central Clinic Association**

## **Notes to Financial Statements**

### **June 30, 2014 and 2013**

restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Gifts having donor stipulations which are satisfied in the period the gift is received are reported as unrestricted revenue and net assets.

Conditional gifts depend on the occurrence of a specified future and uncertain event to bind the potential donor and are recognized as assets and revenue when the conditions are substantially met and the gift becomes unconditional.

#### ***Donated Supplies***

The Organization recognizes donated pharmaceutical supplies at fair value. Donated supplies totaling \$555,617 and \$664,450 are recorded as contribution revenue and supplies expense for the years ended June 30, 2014 and 2013, respectively.

#### ***Income Taxes***

The Organization has been recognized as exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of state law. However, the Organization is subject to federal income tax on any unrelated business taxable income.

#### ***340B Revenue***

The Organization participates in the 340B “Drug Discount Program” which enables qualifying health care providers to purchase drugs from pharmaceutical suppliers at a substantial discount. The 340B Drug Pricing Program is managed by the Health Resources and Services Administration (HRSA) Office of Pharmacy Affairs. The Organization earns revenue under this program by purchasing pharmaceuticals at a reduced cost to fill prescriptions to qualified patients. The Organization has a network of participating pharmacies that dispense the pharmaceuticals to its patients under a contract arrangement with the Organization.

#### ***Electronic Health Records Incentive Program***

The Electronic Health Records Incentive Program, enacted as part of the *American Recovery and Reinvestment Act of 2009*, provides for one-time incentive payments under both the Medicare and Medicaid programs to eligible organizations that demonstrate meaningful use of certified electronic health records technology (EHR). Payments under the Medicare program are generally made for up to four years based on a statutory formula. Payments under the Medicaid program are generally made for up to six years based upon a statutory formula, as determined by the state, which is approved by the Centers for Medicare and Medicaid Services. Payment under both programs are contingent on the Organization continuing to meet escalating meaningful use criteria and any other specific requirements that are applicable for the reporting period. The final amount for any payment year is determined based upon an audit by the state, fiscal intermediary or Medicare Administrative Contractor. Events could occur that would cause the final amounts to differ materially from the initial payments under the program.

# Crusaders Central Clinic Association

## Notes to Financial Statements

June 30, 2014 and 2013

The Organization recognizes revenue ratably over the reporting period starting at the point when management is reasonably assured it will meet all of the meaningful use objectives and any other specific grant requirements applicable for the reporting period.

The Organization has recorded revenue of approximately \$335,750 and \$408,000 for the years ended June 30, 2014 and 2013, respectively, which is included in other revenue in the statement of operations.

### ***Excess of Revenues Over Expenses***

The statements of operations include excess of revenues over expenses. Changes in unrestricted net assets which are excluded from excess of revenues over expenses, consistent with industry practice, include contributions and grants of long-lived assets (including assets acquired using contributions or grants which by donor or granting agency restriction are to be used for the purpose of acquiring such assets).

### ***Reclassifications***

Certain reclassifications have been made to the 2013 financial statements to conform to the 2014 financial statements presentation. These reclassifications had no effect on the change in net assets.

### **Note 2: Grant Revenue**

The Organization is the recipient of a Consolidated Health Centers (CHC) grant from the U.S. Department of Health and Human Services. The general purpose of the grant is to provide expanded health care service delivery for residents of Rockford, Illinois, and surrounding areas. Terms of the grant generally provide for funding of the Organization's operations based on an approved budget. Grant revenue is recognized as qualifying expenditures are incurred over the grant period. During the years ended June 30, 2014 and 2013, the Organization recognized \$4,764,998 and \$4,635,371 in CHC grant revenue, respectively. Funding for the grant budget period ending November 30, 2015, is approved at \$5,053,996.

The Organization is also a recipient of a Ryan White Outpatient Early Intervention Services with Respect to HIV Disease (Ryan White) grant from the U.S. Department of Health and Human Services. The general purpose of the grant is to provide expanded HIV services in Rockford, Illinois, and surrounding areas. Terms of the grant generally provide for funding of the Organization's operations based on an approved budget. During the years ended June 30, 2014 and 2013, the Organization received \$389,687 and \$390,148 in Ryan White grant funds, respectively.

In addition to these grants, the Organization receives additional financial support from other federal, state and private sources. Generally, such support requires compliance with terms and conditions specified in grant agreements and must be renewed on an annual basis.

# Crusaders Central Clinic Association

## Notes to Financial Statements

June 30, 2014 and 2013

### Note 3: Net Patient Service Revenue

The Organization recognizes patient service revenue associated with services provided to patients who have third-party payer coverage on the basis of contractual rates for the services rendered. For uninsured patients that do not qualify for the sliding fee program, the Organization recognizes revenue on the basis of its standard rates for services provided. On the basis of historical experience, a significant portion of the Organization's uninsured patients who do not qualify for the sliding fee program will be unable or unwilling to pay for the services provided. Thus, the Organization records a significant provision for uncollectible accounts related to uninsured patients who do not qualify for the sliding fee program in the period the services are provided. This provision for uncollectible accounts is presented on the statement of operations as a component of net patient service revenue.

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

*Medicare.* Covered FQHC services rendered to Medicare program beneficiaries are paid based on a cost reimbursement methodology. The Organization is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of an annual cost report by the Organization and audit thereof by the Medicare fiscal intermediary. Services not covered under the FQHC benefit are paid based on established fee schedules.

*Medicaid.* Covered FQHC services rendered to Medicaid program beneficiaries are paid based on a prospective reimbursement methodology. The Organization is reimbursed a set encounter rate for all services provided under the plan.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

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

Patient service revenue, net of contractual allowances and discounts (but before the provision for uncollectible accounts), recognized in the years ended June 30, 2014 and 2013, was approximately:

	<b>2014</b>	<b>2013</b>
Medicare	\$ 1,374,543	\$ 1,403,246
Medicaid	17,711,799	17,683,708
Other third-party payers	5,833,092	4,127,520
Self-pay	3,359,192	3,194,674
Total	<u>\$ 28,278,626</u>	<u>\$ 26,409,148</u>

# Crusaders Central Clinic Association

## Notes to Financial Statements

June 30, 2014 and 2013

**Note 4: Concentrations of Credit Risk**

The Organization grants credit without collateral to its patients, most of whom are area residents and are insured under third-party payer agreements. The mix of net receivables from patients and third-party payers at June 30, 2014 and 2013, was:

	<b>2014</b>	<b>2013</b>
Medicare	4%	6%
Medicaid	84%	82%
Patients	5%	5%
Other third-party payers	7%	7%
	100%	100%

**Note 5: Investments and Investment Return**

***Assets Limited As To Use***

Assets limited as to use include:

	<b>2014</b>	<b>2013</b>
Cash externally restricted for Unemployment Saving Trust	\$ 88,936	\$ -
Internally designated		
Cash	4,291,685	8,500,000
Certificates of deposit	250,000	250,000
Mutual funds - money market	1,017,642	-
Mutual funds - equity securities	1,445,487	-
Mutual funds - debt securities	5,725,536	-
	12,730,350	8,750,000
Total internally designated	\$ 12,819,286	\$ 8,750,000

**Crusaders Central Clinic Association**  
**Notes to Financial Statements**  
**June 30, 2014 and 2013**

Total investment return is comprised of the following:

	<b>2014</b>	<b>2013</b>
Interest and dividend income, net of investment expenses	\$ 47,838	\$ 3,866
Unrealized gains on securities	150,250	-
	\$ 198,088	\$ 3,866

**Note 6: Interest in Net Assets of Crusaders Health Foundation**

Crusaders Health Foundation (the “Foundation”) was established to benefit the general public and the Organization. The Foundation’s Board of Directors determines the amount, timing and purpose of the distribution of Foundation funds. The Organization recognizes its interest in the net assets held by the Foundation in a manner similar to the equity method. At June 30, 2014 and 2013, \$3,138,899 and \$2,542,831, respectively, is recognized as the Organization’s interest in the net assets of the Foundation, which includes contributions received by the Foundation and pledges receivable by the Foundation that are donor restricted to be used for Organization purposes.

During the years ended June 30, 2014 and 2013, the Organization was granted \$309,914 and \$498,881 from the Foundation, respectively. The Organization also provides management services to the Foundation. During the years ended June 30, 2014 and 2013, the Organization recognized \$132,662 and \$120,800 in management fee revenue, respectively. At June 30, 2014 and 2013, the Organization had a receivable of \$0 and \$144,052, respectively, due from the Foundation.

**Note 7: Medical Malpractice Claims**

The U.S. Department of Health and Human Services deemed the Organization and its practicing medical professionals covered under the Federal Tort Claims Act (FTCA) for damage for personal injury, including death, resulting from the performance of medical, surgical, dental and related functions. FTCA coverage is comparable to an occurrence policy without a monetary cap.

Claim liabilities are determined without consideration of insurance recoveries. Expected recoveries are based upon the Organization’s claims experience. No accrual has been made for medical malpractice costs for the years ended June 30, 2014 and 2013. However, because of the risk of providing health care services, it is possible that an event has occurred which will be the basis of a future material claim.

# Crusaders Central Clinic Association

## Notes to Financial Statements

June 30, 2014 and 2013

### Note 8: Employee Medical Insurance Claims

The Organization provides certain health care medical insurance coverage for all eligible employees. Under the terms of the insurance policy, the Organization is at risk for covered claims submitted, not to exceed \$45,000 per person per year. The Organization is indemnified for claims in excess of approximately \$1,600,000 in the aggregate by the stop-loss insurance policy coverage.

### Note 9: Line of Credit

The Organization has a \$2,000,000 bank line of credit which expires on December 31, 2015. The line is collateralized by patient accounts receivable and supplies inventories and charges interest at the London Interbank Offered Rate (LIBOR) plus 4.25%, with a minimum interest rate of 5% (5% at June 30, 2014). At June 30, 2014 and 2013, the Organization had no outstanding borrowings against this line of credit.

### Note 10: Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets at June 30, 2014 and 2013, are available for the following purposes or periods:

	<b>2014</b>	<b>2013</b>
Pharmaceutical program	\$ 258,985	\$ 257,086
Interest in net assets of Foundation restricted for		
Health care services	686,727	385,110
Capital purchases	131,511	266,523
Periods after June 30	<u>1,398,934</u>	<u>1,018,959</u>
	<u>\$ 2,476,157</u>	<u>\$ 1,927,678</u>

The Organization has permanently restricted net assets at June 30, 2014 and 2013, which represent Crusaders Health Foundation's interest in a perpetual trust and investments in perpetuity for which only the income may be expended.

# Crusaders Central Clinic Association

## Notes to Financial Statements

June 30, 2014 and 2013

### Note 11: Functional Expenses

The Organization provides health care services to residents within its service area. Expenses related to providing these services, including depreciation expense, are as follows:

	<u>2014</u>	<u>2013</u>
Health care services	\$ 24,764,092	\$ 23,119,095
General and administrative	<u>6,565,818</u>	<u>6,724,688</u>
	<u>\$ 31,329,910</u>	<u>\$ 29,843,783</u>

### Note 12: Retirement Plan

The Organization has a 403(b) defined contribution plan covering substantially all employees. For each eligible participant, the Organization contributes a matching contribution equal to 50% of employee contributions that do not exceed 6% of compensation; however, any employer contributions are discretionary in nature and are subject to reduction or termination. Retirement plan expense for the years ended June 30, 2014 and 2013, was \$208,444 and \$302,914, respectively.

### Note 13: Disclosures About Fair Value of Assets and Liabilities

Fair value is 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. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets or liabilities.
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in active markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3** Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

# Crusaders Central Clinic Association

## Notes to Financial Statements

June 30, 2014 and 2013

### **Recurring Measurements**

The following table presents the fair value measurements of assets recognized in the accompanying balance sheets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at June 30, 2014 and 2013:

	Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>June 30, 2014</b>				
Mutual funds -				
Money market	\$ 1,017,642	\$ 1,017,642	\$ -	\$ -
Mutual funds -				
equity securities	1,445,487	1,445,487	-	-
Mutual funds -				
debt securities	5,725,536	5,725,536	-	-
<b>June 30, 2013</b>	\$ -	\$ -	\$ -	\$ -

Following is a description of the valuation methodology and inputs used for assets measured at fair value on a recurring basis and recognized in the accompanying balance sheets, as well as the general classification as such pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the year ended June 30, 2014.

### **Investments**

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy. The Organization has no investments classified as Level 2 or Level 3.

# Crusaders Central Clinic Association

## Notes to Financial Statements

June 30, 2014 and 2013

### Note 14: Significant Estimates and Concentrations

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerability due to certain concentrations. Those matters include the following:

#### **Grant Revenues**

Concentration of revenues related to grant awards and other support are described in *Note 2*.

#### **Allowance for Net Patient Service Revenue Adjustments**

Estimates of allowances for adjustments included in net patient service revenue are described in *Notes 1* and *3*.

#### **Estimated Liability for Employee Health Care**

Estimates related to the accrual for self-insurance claims are described in *Note 8*.

#### **Malpractice Claims**

Estimates related to the accrual for professional liability claims are described in *Note 7*.

#### **340B Drug Pricing Program**

The Organization participates in the 340B Drug Pricing Program (340B Program) enabling the Organization to receive discounted prices from drug manufacturers on outpatient pharmaceutical purchases. This program is overseen by the Health Resources and Services Administration (HRSA) Office of Pharmacy Affairs (OPA). HRSA is currently conducting routine audits of these programs at health care organizations and increasing its compliance monitoring processes. Laws and regulations governing the 340B Program are complex and subject to interpretation and change. As a result, it is reasonably possible that material changes to financial statement amounts related to the 340B Program could occur in the near term.

### Note 15: Subsequent Events

Subsequent events have been evaluated through the date of the Independent Auditor's Report, which is the date the financial statements were available to be issued.

In October 2014, the Organization was notified that it was the recipient of a \$3 million capital grant from the State of Illinois. The grant will be used to purchase and renovate a facility in Rockford, Illinois, which will be used to provide primary care to area residents.

In November 2014, the Organization was notified that it was the recipient of an annual \$250,000 grant for two years from the U.S. Health and Human Services Administration to develop and expand behavior health services at its existing sites.

## **Supplementary Information**

**Crusaders Central Clinic Association**  
**Schedule of Expenditures of Federal Awards**  
**Year Ended June 30, 2014**

<b>Cluster/Program</b>	<b>Federal Agency/ Pass-Through Entity</b>	<b>CFDA Number</b>	<b>Grant or Identifying Number</b>	<b>Amount Expended</b>
Consolidated Health Centers	U.S. Department of Health and Human Services	93.224	6 H80CS00113-13-10	\$ 2,245,056
Affordable Care Act Grants for New and Expanded Services Under the Health Care Program	U.S. Department of Health and Human Services	93.527	6 H80CS00113-13-10	<u>2,519,942</u>
Total cluster				4,764,998
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	U.S. Department of Health and Human Services	93.918	5 H76HA00109-24-00	<u>389,687</u>
				<u><u>\$ 5,154,685</u></u>

**Notes to Schedule**

1. This schedule includes the federal awards activity of Crusaders Central Clinic Association and is presented on the accrual basis of accounting. 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*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.
2. Crusaders Central Clinic Association did not provide a federal award to a subrecipient during the year ended June 30, 2014.

## **Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards***

Board of Directors  
Crusaders Central Clinic Association  
Rockford, Illinois

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Crusaders Central Clinic Association (the "Organization"), which comprise the balance sheet as of June 30, 2014, and the related statements of operations, changes in net assets and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 22, 2014.

### ***Internal Control Over Financial Reporting***

Management of the Organization is responsible for establishing and maintaining effective internal control over financial reporting (internal control). In planning and performing our audit, we considered the Organization's 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 Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization'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 Organization'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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses as defined above. However, material weaknesses may exist that have not been identified.

Board of Directors  
Crusaders Central Clinic Association

### ***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether the Organization'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 the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

**BKD, LLP**

Springfield, Missouri  
December 22, 2014

## Report on Compliance for Each Major Federal Program and on Internal Control Over Compliance

### Independent Auditor's Report

Board of Directors  
Crusaders Central Clinic Association  
Rockford, Illinois

#### ***Report on Compliance for Major Federal Program***

We have audited the compliance of Crusaders Central Clinic Association with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on its major federal program for the year ended June 30, 2014. The Organization's major federal program is 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 Crusaders Central Clinic Association's major federal program 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 Organization'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 the major federal program. However, our audit does not provide a legal determination on the Organization's compliance.

Board of Directors  
Crusaders Central Clinic Association

### ***Opinion on Major Federal Program***

In our opinion, Crusaders Central Clinic Association complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2014.

### ***Report on Internal Control Over Compliance***

Management of Crusaders Central Clinic Association 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 Organization's internal control over compliance with the requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for the 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 Organization'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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

*BKD, LLP*

December 22, 2014

**Crusaders Central Clinic Association**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2014**

**Summary of Auditor's Results**

1. The opinion expressed in the independent auditor's report was:  
 Unmodified       Qualified       Adverse       Disclaimer
  
2. The independent auditor's report on internal control over financial reporting disclosed:  
 Significant deficiency(ies)?       Yes       None reported  
 Material weakness(es)?       Yes       No
  
3. Noncompliance considered material to the financial statements was disclosed by the audit?       Yes       No
  
4. The independent auditor's report on internal control over compliance with requirements that could have a direct and material effect on major federal awards programs disclosed:  
 Significant deficiency(ies)?       Yes       None reported  
 Material weakness(es)?       Yes       No
  
5. The opinion expressed in the independent auditor's report on compliance with requirements that could have a direct and material effect on major federal awards was:  
 Unmodified       Qualified       Adverse       Disclaimer
  
6. The audit disclosed findings required to be reported by OMB Circular A-133?       Yes       No
  
7. The Organization's major program was:

Cluster/Program	CFDA Number
Consolidated Health Centers Cluster	93.224 and 93.527

**Crusaders Central Clinic Association**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2014**

8. The threshold used to distinguish between Type A and Type B programs as those terms are defined in OMB Circular A-133 was \$300,000.

9. The Organization qualified as a low-risk auditee as that term is defined in OMB Circular A-133?  Yes  No

**Findings Required to be Reported by *Government Auditing Standards***

Reference Number	Finding	Questioned Costs
No matters are reportable.		

**Findings Required to be Reported by OMB Circular A-133**

Reference Number	Finding	Questioned Costs
No matters are reportable.		

**Crusaders Central Clinic Association**  
**Summary Schedule of Prior Audit Findings**  
**Year Ended June 30, 2014**

<b>Reference Number</b>	<b>Summary of Finding</b>	<b>Status</b>
2013-001	<p style="text-align: center;">Consolidated Health Centers CFDA No. 93.224 and 93.527</p> <p style="text-align: center;">U.S. Department of Health and Human Services Award No. 6 H80CS 00113-12-02 Program Year 2013</p> <p>Criteria or Specific Requirement – Eligibility</p> <p>Condition – Patients were given inappropriate sliding fee adjustments under the Organization’s policy.</p> <p>Context – Out of an undetermined number of patients who received sliding fee adjustments, a sample of 40 patients was tested. One patient was given a sliding fee adjustment despite providing inappropriate income documentation. One of the patients was billed an inappropriate amount based on the Organization’s sliding fee scale.</p> <p>Effect – Improper sliding fee adjustments were given.</p> <p>Cause – Organization personnel were not appropriately following the sliding fee policy.</p>	No longer valid