

Erie Family Health Center, Inc.

**Financial Report
with Additional Information
June 30, 2014**

Erie Family Health Center, Inc.

Contents

Report Letter	1-2
Financial Statements	
Balance Sheet	3
Statement of Operations and Changes in Net Assets	4
Statement of Cash Flows	5
Notes to Financial Statements	6-22
Additional Information	23
Report Letter	24
Statement of Functional Expenses	25-26
Schedule of Operations by Federal Programs	27-28
Independent Auditor's Report on Supplemental Grant Report	29
Illinois Department of Human Services Grant Report	30-31

Independent Auditor's Report

To the Board of Directors
Erie Family Health Center, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Erie Family Health Center, Inc. (the "Center"), which comprise the balance sheet as of June 30, 2014 and 2013 and the related statements of operations and 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 auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits 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.

To the Board of Directors
Erie Family Health Center, Inc.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Erie Family Health Center, Inc. as of June 30, 2014 and 2013 and the results of its operations and 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 20, 2015 on our consideration of Erie Family Health Center, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 Erie Family Health Center, Inc.'s internal control over financial reporting and compliance.

Plante & Moran, PLLC

January 20, 2015

Erie Family Health Center, Inc.

Balance Sheet

	<u>June 30, 2014</u>	<u>June 30, 2013</u>
Assets		
Current Assets		
Cash	\$ 1,528,394	\$ 5,576,029
Certificates of deposit	2,170,377	4,463,123
Receivables:		
Patient accounts (net of allowance for doubtful accounts of \$1,236,115 and \$553,277 in 2014 and 2013, respectively) (Note 2)	4,890,151	2,473,064
Grants (Note 3)	5,157,097	4,619,261
Other	612,970	162,463
Prepaid expenses and other current assets	792,377	446,434
Total current assets	15,151,366	17,740,374
Equity Investments	783,527	640,198
Property and Equipment - Net (Note 4)	21,776,378	12,365,282
Total assets	<u><u>\$ 37,711,271</u></u>	<u><u>\$ 30,745,854</u></u>
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 1,841,136	\$ 1,568,559
Accrued expenses:		
Salaries and wages	2,033,670	1,653,920
Accrued bonus	506,612	426,200
Other accrued liabilities	3,045,221	439,189
Deferred revenue	122,593	22,259
Current portion of long-term debt (Note 6)	102,267	123,076
Short-term borrowings on line of credit (Note 5)	700,000	-
Total current liabilities	8,351,499	4,233,203
Long-term Debt - Net of current portion (Note 6)	1,431,733	1,370,148
Estimated Third-party Payor Liability	834,524	834,524
Net Assets		
Unrestricted	25,238,948	21,285,597
Temporarily restricted (Note 14)	1,854,567	3,022,382
Total net assets	27,093,515	24,307,979
Total liabilities and net assets	<u><u>\$ 37,711,271</u></u>	<u><u>\$ 30,745,854</u></u>

Erie Family Health Center, Inc.

Statement of Operations and Changes in Net Assets

	Year Ended					
	June 30, 2014			June 30, 2013		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Revenue						
Patient services	\$ 24,574,874	\$ -	\$ 24,574,874	\$ 20,521,232	\$ -	\$ 20,521,232
Provision for bad debts	(1,673,304)	-	(1,673,304)	(616,511)	-	(616,511)
Total net patient service revenue	22,901,570	-	22,901,570	19,904,721	-	19,904,721
Department of Health and Human Services grants (Note 7)	8,591,212	-	8,591,212	8,225,867	-	8,225,867
Contract services and other grants (Note 9)	7,838,251	1,640,597	9,478,848	5,693,785	938,816	6,632,601
Contributions and other	1,785,894	-	1,785,894	1,478,865	-	1,478,865
Net assets released from restrictions	946,760	(946,760)	-	232,774	(232,774)	-
Total revenue	42,063,687	693,837	42,757,524	35,536,012	706,042	36,242,054
Expenses						
Salaries and benefits	30,958,173	-	30,958,173	25,406,630	-	25,406,630
Other operating expenses	10,916,963	-	10,916,963	8,203,389	-	8,203,389
Interest	72,787	-	72,787	69,175	-	69,175
Total expenses	41,947,923	-	41,947,923	33,679,194	-	33,679,194
Operating Income - Prior to depreciation and amortization	115,764	693,837	809,601	1,856,818	706,042	2,562,860
Depreciation and Amortization	2,137,987	-	2,137,987	1,639,427	-	1,639,427
Operating (Loss) Income	(2,022,223)	693,837	(1,328,386)	217,391	706,042	923,433
Capital Projects						
Capital projects grants (Note 10)	3,883,468	155,000	4,038,468	909,064	2,016,652	2,925,716
Satisfaction of capital projects grant restrictions	2,016,652	(2,016,652)	-	100,000	(100,000)	-
Total capital projects	5,900,120	(1,861,652)	4,038,468	1,009,064	1,916,652	2,925,716
Share of Alliance Earnings	75,454	-	75,454	139,250	-	139,250
Change in Net Assets	3,953,351	(1,167,815)	2,785,536	1,365,705	2,622,694	3,988,399
Net Assets - Beginning of year	21,285,597	3,022,382	24,307,979	19,919,892	399,688	20,319,580
Net Assets - End of year	<u>\$ 25,238,948</u>	<u>\$ 1,854,567</u>	<u>\$ 27,093,515</u>	<u>\$ 21,285,597</u>	<u>\$ 3,022,382</u>	<u>\$ 24,307,979</u>

Erie Family Health Center, Inc.

Statement of Cash Flows

	Year Ended	
	June 30, 2014	June 30, 2013
Cash Flows from Operating Activities		
Change in net assets	\$ 2,785,536	\$ 3,988,399
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	2,137,987	1,639,427
Provision for bad debt	1,673,345	616,511
Undistributed earnings from Alliance	(75,454)	(139,250)
Changes in operating assets and liabilities which (used) provided cash:		
Patient accounts receivable	(4,090,432)	184,689
Grants receivable	(537,836)	(2,372,718)
Prepaid expenses and other receivables	(796,450)	(104,599)
Accounts payable	(800,829)	159,451
Accrued expenses	3,066,194	605,978
Deferred revenue	100,334	(198,104)
Net cash provided by operating activities	3,462,395	4,379,784
Cash Flows from Investing Activities		
Capital expenditures	(10,475,677)	(2,920,045)
Purchase of certificates of deposit	-	(18,316)
Redemption of certificates of deposit	2,292,746	-
Capital contributions to investees	(67,875)	(34,583)
Net cash used in investing activities	(8,250,806)	(2,972,944)
Net Cash Used in Financing Activities		
Borrowings under line of credit	700,000	-
Repayments of long-term debt	(1,493,224)	(118,367)
Proceeds from issuance of long-term debt	1,534,000	-
Net cash provided by (used in) financing activities	740,776	(118,367)
Net (Decrease) Increase in Cash	(4,047,635)	1,288,473
Cash - Beginning of year	5,576,029	4,287,556
Cash - End of year	\$ 1,528,394	\$ 5,576,029
Supplemental Disclosure of Cash Flow Information		
Cash paid for interest	\$ 68,719	\$ 69,175
Purchases of property and equipment included in accounts payable	1,955,551	882,145

Erie Family Health Center, Inc.

Notes to Financial Statements June 30, 2014 and 2013

Note I - Nature of Business and Significant Accounting Policies

Erie Family Health Center, Inc. (the "Center"), located in Chicago, Illinois, operates a healthcare center located in Chicago, Illinois. The Center provides a broad range of health services to a large medically underserved population. As of June 30, 2014, the Center provides comprehensive health services at 13 health centers: five large primary health care centers, one adolescent-only health center, five school-based health centers, and two dental health centers.

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

In March 2014, Erie Family Health Center formed Erie Title Holding Company (ETHC), which is wholly owned by Erie Family Health Center, Inc. ETHC exists only to hold ownership in land, building, and opening day equipment located at 2323 Grand Ave, Waukegan, IL 60085, the purpose of which is to operate Erie Waukegan Health Center, and is intended to be treated as a "qualified low-income community investment" for the purpose of generating New Markets Tax Credits under Section 45D of the Internal Revenue Code of 1986, as amended. Through June 30, 2014, ETHC held no assets or liabilities and did not have any revenue or expense transactions. The New Markets Transaction and subsequent transfer of the Waukegan building occurred in July 2, 2014. Accordingly, the New Markets Transaction activity of ETHC and the resulting assets, liabilities, and net assets will be consolidated with the Center for financial statement purposes in fiscal year 2015.

Basis of Presentation - The accompanying financial statements of the Center have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP). The separate classes of net assets are defined as follows:

Unrestricted:

- Amounts that are currently available for use in the Center's operations and for the acquisition of equipment.

Temporarily Restricted:

- Amounts that are stipulated by donors for specific operating purposes or that expire with the passage of time. Donor-restricted contributions, whose restrictions expire during the same fiscal year, are recognized as unrestricted.

Erie Family Health Center, Inc.

Notes to Financial Statements June 30, 2014 and 2013

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Cash - The Center maintains cash in bank deposit accounts, which at times may exceed federally insured limits. The Center has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash.

Certificates of Deposit - Certificates of deposit are held with reputable financial institutions and are carried on amortized cost.

Revenue Recognition - Public support and revenue are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Gains and losses on other assets or liabilities are reported as an increase or decrease in unrestricted net assets unless explicit donor stipulation or law restricts their use.

Contributions, including unconditional promises to give and certain grants, are measured at their fair values, reported as an increase in net assets, and recorded when pledged by the donor. All contributions are available for unrestricted use unless specifically restricted by the donor. Conditional promises to give and certain grants are recognized when the conditions on which they depend are substantially met. Unconditional promises to give and certain grants due in subsequent years are reported at fair value using risk-free rates applicable to the years in which the promises are to be received.

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. Deferred revenue represents payments received that have not been earned as of the report date. As of June 30, 2014 and 2013, the Center has received conditional grants and contracts from governmental agencies in the aggregate of \$11,634,709 and \$2,582,595, respectively, which have not been recorded in financial statements. These grants and contracts require the Center to provide certain healthcare services or complete certain capital projects during specified periods. If such activities are not completed during the periods, the governmental entities are not obligated to expend funds allotted under the grants and contracts.

Erie Family Health Center, Inc.

Notes to Financial Statements June 30, 2014 and 2013

Note I - Nature of Business and Significant Accounting Policies (Continued)

The Center has agreements with third-party payors that provide for payments to the Center at amounts different from its established rates. Payment arrangements include prospectively determined reimbursed costs and discounted charges. Net patient service revenue is reported at the estimated net realizable amounts from patients and third-party payors for services rendered, including estimated retroactive adjustments under reimbursement agreements with certain third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. Management believes that the Center's estimated third-party payor liability is sufficient to cover all amounts owing under current requirements and does not expect significant changes to future financial statements from future regulatory audits. Self-pay revenue is recorded at published charges with charitable allowances deducted to arrive at net self-pay revenue.

Net Patient Service Revenue - The Center recognizes patient service revenue associated with services provided to patients who have third-party payor coverage on the basis of contractual rates for the services rendered. Based on historical experience, a significant portion of the Center's uninsured patients will be unable or unwilling to pay for the services provided. Thus, the Center records a significant provision for bad debts related to uninsured patients in the period the services are provided. Patient service revenue, net of contractual allowances (but before the provision for bad debts), recognized in the period from these major payor sources, is as follows:

	<u>Third-party Payors</u>	<u>Self-pay</u>	<u>Total All- payors</u>
2014 patient service revenue (net of contractual provisions)	<u>\$ 21,996,831</u>	<u>\$ 2,578,043</u>	<u>\$ 24,574,874</u>
2013 patient service revenue (net of contractual provisions)	<u>\$ 18,583,691</u>	<u>\$ 1,937,541</u>	<u>\$ 20,521,232</u>

Charity Care - The Center provides charity care to patients at full or partially reduced rates based on certain criteria contained in its sliding scale charity care policy. The sliding scale fee program is based on family income and size and is updated annually based on the published federal poverty levels. The cost of charity care provided was approximately \$9,205,155 and \$8,546,777 for the years ended June 30, 2014 and 2013, respectively. The cost estimate is based upon the organization-wide cost to charge ratio, calculated in the Center's annual cost report.

Erie Family Health Center, Inc.

Notes to Financial Statements June 30, 2014 and 2013

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Equity Investments - The Center is one of four members (25 percent ownership) of Alliance of Chicago Community Health Services, LLC (Alliance). The purposes of Alliance are (1) to form an organization that will coordinate the sharing of resources and the integration of services and systems between and among the members and (2) in furtherance of operating for the benefit of the communities served by the members, to help further the charitable goals and missions of the members. Such purposes are in furtherance of the federal government's (specifically, the DHHS and Bureau of Primary Health Care) encouragement of groups of federally qualified health centers to form networks. The investment in Alliance is accounted for by the equity method, which increases the initial cost of the investment by the investor's share of earnings and reduces the carrying value by its share of losses and dividends received. The Center's membership interest in the Alliance was \$697,400 and \$625,198 as of June 30, 2014 and 2013, respectively.

In addition, the Center is a member of three other organizations with ownership interests of less than 20 percent, which are recorded at cost. The Center's membership interest in these organizations was \$86,127 and \$15,000 as of June 30, 2014 and 2013, respectively.

Property and Equipment - Property and equipment are recorded at cost and depreciated over estimated useful lives using the straight-line method. Costs of repairs and maintenance are charged to expense as incurred. The Center's capitalization policy is to capitalize assets with a cost of \$1,000 or more and a useful life of over one year. Depreciation and amortization are computed using the straight-line method based on the estimated useful lives of the assets. The cost of leasehold improvements is amortized using the straight-line method over their useful lives, or the applicable lease term, if shorter.

Functional Allocation of Expenses - The costs of providing the program and support services have been reported on a functional basis in Note 15. Indirect costs have been allocated between the various programs and support services based on estimates, as determined by management. Although the methods of allocation used are considered reasonable, other methods could be used that would produce a different amount.

Erie Family Health Center, Inc.

Notes to Financial Statements June 30, 2014 and 2013

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Tax Status - The Center is a not-for-profit corporation and is exempt from tax under the provisions of Internal Revenue Code Section 501(c)(3). Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Center and recognize a tax liability if the Center has taken an uncertain position that more likely than not would not be sustained upon examination by the IRS or other applicable taxing authorities. Management has analyzed the tax positions taken by the Center, and has concluded that as of June 30, 2014, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the financial statements. The Center is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. Management believes it is no longer subject to income tax examinations for years prior to 2011.

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

Subsequent Events - The financial statements and related disclosures include evaluation of events up through and including January 20, 2015, which is the date the financial statements were available to be issued.

Note 2 - Patient Accounts Receivable - Net

The Center grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. Patient accounts receivable as of June 30, 2014 and 2013 are as follows:

	2014	2013
Medicaid	\$ 3,371,069	\$ 1,473,903
Medicare	1,192,791	606,189
Self-pay	1,064,211	663,501
Other third-party payors	498,195	282,748
Total	6,126,266	3,026,341
Less allowance for doubtful accounts	(1,236,115)	(553,277)
Total	<u>\$ 4,890,151</u>	<u>\$ 2,473,064</u>

Erie Family Health Center, Inc.

Notes to Financial Statements June 30, 2014 and 2013

Note 2 - Patient Accounts Receivable - Net (Continued)

The allowance for doubtful accounts is estimated by the Center based on historical relationships with patients and other third-party payors. The Center closely reviews all outstanding accounts receivable and follows up on all delinquent accounts. Delinquency status is determined based on the recent payment history of the patient or third-party payor.

Note 3 - Grants Receivable

Grants receivable as of June 30, 2014 and 2013 are as follows:

	2014	2013
Department of Health and Human Services:		
Health Resources and Service Administration (HRSA)	\$ 1,204,014	\$ 1,098,452
HRSA pass through to Northwestern University	1,209,822	1,083,641
Meaningful Use - Provider EHRs	86,875	434,250
Agency for Healthcare Research and Quality	-	23,091
Substance Abuse	-	18,300
Illinois Department of Human Services:		
Chicago Family Case Management	535,245	232,557
Targeted Intensive Prenatal Case Management	15,339	-
School-Based Health Center	89,414	85,600
Healthy Families of Illinois	72,815	38,505
Healthy Start	19,975	-
CFCM Additional High Risk Management	-	111,343
Family Planning - Title X	56,885	72,683
Illinois Department of Public Health:		
Capital Development Board	-	178,938
Breast and Cervical Cancer	223,828	35,410
Access Community Health (Stand Against Cancer)	1,066	3,037
Chicago Department of Public Health:		
Ryan White Care Title I/Primary Care	34,109	55,420
Women, Infants, and Children	214,270	24,765
Uninsured Patients at Division	416,324	464,116
Northwestern Memorial Foundation - Diabetes	26,908	-
Ryan White Title II - AIDS Foundation	17,036	24,919
Norwegian American Hospital Family Residency Program	50,000	50,000
Crown Family Philanthropies	-	15,000
United Way of Metropolitan Chicago - Chicago	31,470	31,470
United Way of Metropolitan Chicago - Evanston/Skokie	100,000	100,000
NorthShore University HealthSystem - Capital	-	300,000
Capital Development Building Capacity Project (Waukegan Health Center)	-	9,083
Ravenswood Health Care Foundation	-	75,000

Erie Family Health Center, Inc.

Notes to Financial Statements June 30, 2014 and 2013

Note 3 - Grants Receivable (Continued)

	2014	2013
Northwestern University - Feinberg School of Medicine	\$ 233,326	\$ 50,000
Illinois Children's Healthcare Foundation - Capital	300,000	-
Illinois Children's Healthcare Foundation - Operating	50,000	-
Blue Cross and Blue Shield of Illinois	50,000	-
Healthcare Foundation of Northern Lake County	55,000	-
American Medical Association Blood Pressure	20,000	-
North Shore Gas - Capital Waukegan	7,380	-
REAM Foundation & Harvey L. Miller Family Foundation	1,701	-
George M. Eisenberg Foundation for Charities	1,012	-
Aetna Foundation - Expanded Health & Wellness Program at Elementary School-Based Health Centers	5,461	3,681
Other	27,822	-
Total	<u>\$ 5,157,097</u>	<u>\$ 4,619,261</u>

Note 4 - Property and Equipment

The cost of property and equipment is summarized as follows:

	2014	2013	Depreciable Life - Years
Land	\$ 742,344	\$ 77,800	-
Buildings	4,487,286	5,165,854	40
Building improvements	6,156,419	6,992,701	5-20
Equipment	3,338,144	3,971,067	3-5
Vehicles	58,201	58,201	5
Furniture and fixtures	2,111,532	2,570,860	5
Software	727,641	1,008,157	3-5
Leasehold improvements	4,728,208	1,630,131	5-20
Construction in progress, equipment and improvements not placed in service	7,230,329	1,181,505	-
Total cost	29,580,104	22,656,276	
Less accumulated depreciation	<u>(7,803,726)</u>	<u>(10,290,994)</u>	
Net carrying amount	<u>\$ 21,776,378</u>	<u>\$ 12,365,282</u>	

Erie Family Health Center, Inc.

Notes to Financial Statements June 30, 2014 and 2013

Note 5 - Short-term Borrowings

Effective May 30, 2014, the Center entered into a line of credit agreement with PNC Bank with maximum borrowings of \$1,500,000. The borrowings under this line of credit bear interest at the daily LIBOR rate plus 1.75 percent and it is secured by all business assets. As of June 30, 2014, the Center had an outstanding balance of \$700,000 on the line of credit. The agreement expires May 20, 2015.

Note 6 - Long-term Debt

Long-term debt at June 30 is as follows:

	<u>2014</u>	<u>2013</u>
Note payable to bank, due on December 7, 2014, with monthly payments of principal and interest of \$8,003 and a final balloon payment of \$758,400, at an annual rate of 5.29 percent; secured by all business assets	\$ -	\$ 832,522
Note payable #1 to Illinois Facilities Fund, due on December 1, 2021, with monthly payments of principal and interest of \$3,694 at a five-year adjustable rate of 3.14 percent; secured by the property in Humboldt Park and West Town	-	330,351
Note payable #2 to Illinois Facilities Fund, due on December 1, 2021, with monthly payments of principal and interest of \$3,694 at a five-year adjustable rate of 3.14 percent; secured by the property in Humboldt Park and West Town	-	330,351
Note payable to PNC Bank, due May 30, 2021, with monthly payments of principal and interest of \$8,522.22. Interest rate will float at 30-day LIBOR plus 175 basis points; secured by all business assets	<u>1,534,000</u>	<u>-</u>
Total	1,534,000	1,493,224
Less current portion	<u>102,267</u>	<u>123,076</u>
Long-term portion	<u>\$ 1,431,733</u>	<u>\$ 1,370,148</u>

Erie Family Health Center, Inc.

Notes to Financial Statements June 30, 2014 and 2013

Note 6 - Long-term Debt (Continued)

The balance of the above long-term debt matures as follows:

2016	\$	102,267
2017		102,267
2018		102,267
2019		102,267
2020		102,267
Thereafter		<u>920,401</u>
Total	\$	<u>1,431,736</u>

During 2004, the Center occupied its main facility under the terms of a capital lease and related program agreement from the Illinois Facilities Fund (IFF). This agreement and the related trust indenture and grant agreement required that IFF own the property and be responsible for ensuring that the facilities are permitted and licensed as a Federal Qualified Health Center concurrent with this program agreement. The Center entered into a grant agreement with the DHHS whereby the DHHS agreed to grant funds to the Center to pay the lease obligation to IFF, as long as the property continued to be used for community purposes as directed by the DHHS.

Following the expiration of the lease in 2005, the title to the property would be conveyed to the Center upon making the required balloon payment of \$599,933, provided that the property continued to be used for community purposes as directed by the DHHS. The Center has complied in all respects to the program agreement and lease.

During 2005, the Center took ownership of its main facility from IFF. The balloon payment was financed by a \$600,000 bank loan, which was secured by a pledge on a \$600,000 certificate of deposit. This certificate of deposit was reduced to a value of \$520,000 as of June 30, 2006. During 2007, the Center took out two loans for an aggregate total of \$1,000,000 from IFF, and the certificate of deposit from the prior year of \$520,000 was liquidated. A new certificate of deposit was created with an initial balance of \$112,000 and pledged as collateral, in addition to second mortgages on the Humboldt Park and West Town properties. During the year ended June 30, 2008, all restrictions were removed on the certificate of deposit. In the event the DHHS grant is terminated, the DHHS reserves the right to transfer all property and equipment, including the main facility, purchased with grant funds and/or grant-related income to the Public Health Service (PHS) or third parties. The Center has no intention of changing its mission and that mission is consistent with the DHHS grant.

During 2014, the Center took out a loan from PNC Bank and paid all of its existing debt with IFF and Citibank.

Erie Family Health Center, Inc.

Notes to Financial Statements June 30, 2014 and 2013

Note 7 - Department of Health and Human Services Grants

The Center recognized the following DHHS grants for the years ended June 30, 2014 and 2013:

Grant Number	Grant Period	Total Grant	Unrestricted Revenue Recognized
H80CS00115-C0	12/12-11/13	\$ 55,000	\$ 17,021
H80CS00115-10-C0	12/12-11/13	5,031,753	2,055,297
H80CS00115-10-C0	12/13-11/14	5,523,790	3,722,374
H80CS00115-10-C0	9/12-8/13	47,500	9,046
H80CS00115-10-C0	12/13-11/14	5,645,817	257,178
C8ACS23692AC	5/12-4/15	4,064,746	67,468
H76HA00183-15-02	7/13-4/14	328,001	289,664
H76HA00183-15-02	5/14-4/15	393,601	96,547
H17MC21561-02-00	3/13-2/14	50,000	37,902
H17MC21561-02-00	3/14-2/15	50,000	10,971
Pass-through from NU D55HP23201	9/12-9/13	154,595	46,000
Pass-through from NU D55HP23201	9/13-9/14	202,056	124,884
Pass-through from NU T91HP21542AC	7/13-6/14	1,887,356	1,853,235
Alliance Subcontract - IUB2HA20234	9/10-8/13	21,277	3,625
		Total 2014	\$ 8,591,212
H80CS00115-10-02	12/12-11/13	\$ 5,086,753	\$ 2,932,568
H80CS00115-11-00 & 03	12/11-11/12	4,761,753	1,996,719
H80CS00115-10-07	11/11-9/12	30,000	26,104
H76HA00183-16-00	7/12-6/13	414,317	399,047
H76HA00183-15-00 & 01	7/11-6/12	414,317	15,270
H76HA00183-15-02	7/11-6/13	150,000	117,333
H17MC21561-02-00	3/12-2/13	50,000	32,428
H17MC21561-02-00	3/13-2/14	50,000	12,098
Alliance Subcontract - IUB2HA20234	9/10-8/13	21,277	21,277
Pass-through from NU Award# T91HP21542	10/11-9/12	1,854,102	1,933,652
Pass-through from NU D55HP23201-01-00	10/11-9/12	154,595	154,595
H80CS00115-11-04	7/12-6/13	22,949	22,949
H80CS00115-11-05	6/12-11/13	561,827	561,827
		Total 2013	\$ 8,225,867

Erie Family Health Center, Inc.

Notes to Financial Statements June 30, 2014 and 2013

Note 8 - Patient Services and Other Grants

Patient service revenue was comprised of the following for the years ended June 30, 2014 and 2013:

	2014	2013
Medicaid	78 %	80 %
Medicare	3	3
Commercial insurance	5	4
Self-pay	10	9
Other	4	4
Total	<u>100 %</u>	<u>100 %</u>

Note 9 - Contract Services and Other Grants

The Center recognized as revenue the following contract services and other grants for the years ended June 30, 2014 and 2013:

	2014	2013
Illinois Department of Human Services	\$ 2,745,427	\$ 2,463,549
Swedish Covenant Hospital	940,000	-
Illinois Department of Public Health - In Person Counselor Assistance	627,631	-
Department of Health and Human Services	1,105,216	476,750
Illinois Department of Public Health	267,327	240,764
Chicago Department of Public Health	758,517	363,331
Northwestern Memorial Foundation	290,763	467,605
Polk Bros. Foundation	180,000	180,000
Avon Foundation	116,667	241,961
AIDS Foundation of Chicago	200,833	201,553
Ravenswood Health Care Foundation	85,000	270,727
Norwegian American Hospital Family Residency Program	-	100,000
Northwestern Memorial Hospital	26,241	-
Northwestern University	84,734	381,586
Prince Charitable Trusts	41,960	-
Lloyd A. Fry Foundation	10,000	50,000
Michael Reese Health Trust	30,000	30,000
Grant Healthcare Foundation	25,000	25,000
Circle of Service Foundation	25,000	25,000
Advocate Bethany Community Health Fund	-	7,181
Aetna Foundation	30,461	40,000
Alliance of Chicago Community Health Services, LLC	385,600	150,795

Erie Family Health Center, Inc.

Notes to Financial Statements June 30, 2014 and 2013

Note 9 - Contract Services and Other Grants (Continued)

	2014	2013
Sisyphus Supporting Foundation	\$ 25,000	\$ 25,000
Medicare - Patient Centered Medical Home Dem. Project	26,802	25,182
Crown Family Philanthropies	50,000	15,000
Abbott Fund	50,000	-
Washington Square Health Foundation	18,000	-
Searle Funds at the Chicago Community Trust	24,000	75,000
Evanston Community Foundation	-	1,114
Finnegan Family Foundation	60,000	-
Bowman C. Lingle Trust	10,000	-
Blue Cross and Blue Shield of Illinois	80,000	30,000
The Susan G. Komen Breast Cancer Foundation, Inc. d/b/a Susan G. Komen for the Cure	37,500	32,500
Helen Brach Foundation - Waukegan	10,000	-
Lehman-Stamm Family Fund	10,000	-
Chicago Dental Society Foundation	5,000	10,000
Humboldt Park Health Corridor Program	21,000	-
NorthShore University HealthSystem	288,583	200,000
Illinois Children's Healthcare Foundation	515,000	170,000
United Way of Metropolitan Chicago - Evanston	100,000	100,000
VNA Foundation	35,000	35,000
United Way of Metropolitan Chicago - Chicago	33,770	31,470
Colgate Oral Pharmaceuticals	-	25,000
Local Initiatives Support Corporation Chicago	-	20,000
DentaQuest Institute	4,500	18,040
Irvin Stern Foundation	-	15,000
Carl R. Hendrickson Family Foundation	-	10,000
Northern Trust Charitable Trust	-	10,000
Daniel F. and Ada L. Rice Foundation	-	10,000
American Academy of Family Physicians Foundation	-	6,629
ADA Foundation	5,000	5,000
Lehman's-Mennonite Foundation	4,000	-
American Lung Association	2,500	-
Society of Teachers of Family Medicine (STFM)	2,000	-
George M. Eisenberg Foundation for Charities	1,012	5,000
American Medical Association	25,000	-
Gilead Sciences, Inc.	5,000	-
Mathematica Foundation	5,000	-
University of Chicago ECHO Foundation	8,000	-
Other	40,804	41,864
Total	<u>\$ 9,478,848</u>	<u>\$ 6,632,601</u>

Erie Family Health Center, Inc.

Notes to Financial Statements June 30, 2014 and 2013

Note 10 - Capital Projects

The Center recognized as revenue the following grants received for capital projects for the years ended June 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
State of Illinois Capital Development Board Renovation	\$ -	\$ 612,258
North Shore Gas	20,000	-
CDPH Women, Infant and Children Division	2,876	-
Illinois Children's Healthcare Foundation H3	601,763	-
Erie Family Health Center's Campaign for Healthier Communities	155,000	-
North Shore Gas - Capital Waukegan	27,380	-
Healthcare Foundation of Northern Lake County	100,000	-
Evanston Hospital North Shore University HealthSystem	-	1,200,000
Evanston Dental Service Expansion Project	88,297	-
North Suburban Healthcare Foundation	-	1,000,000
Finnegan Family Foundation - Evanston	-	100,000
HRSA NU Subgrant Teaching Health Center	2,309	-
HRSA - Outreach and Enrollment	4,043	-
HRSA Building Capacity Capital Grant	3,036,800	13,458
Total	<u>\$ 4,038,468</u>	<u>\$ 2,925,716</u>

Erie Family Health Center, Inc.

Notes to Financial Statements June 30, 2014 and 2013

Note 11 - Operating Lease

The Center has entered into leases with unrelated parties for five of its office locations: 1945 West Wilson, 3155 West Lawrence, 4759 North Kedzie, and 5215 North California Avenue in Chicago, Illinois, and 2100 Ridge Avenue at Evanston, Illinois. The last two leases were signed during fiscal year 2013. The Center has also entered into leases with unrelated parties for printers. Total rent expense for all operating leases was \$1,600,531 and \$901,632 in 2014 and 2013, respectively. The leases are set to expire on various dates with the last lease expiring on June 30, 2029.

The following is a schedule of future minimum rental payments under the operating lease:

<u>Years Ending June 30</u>	<u>Amount</u>
2015	\$ 1,061,478
2016	1,042,543
2017	1,021,740
2018	1,036,204
2019	1,043,147
Thereafter	<u>3,251,239</u>
Total	<u>\$ 8,456,351</u>

Note 12 - Retirement Plan

The Center sponsors a 401(k) retirement plan covering substantially all employees who meet certain eligibility requirements. The amount contributed by the Center to the plan is dependent on the contribution of each employee. Total employer contributions to the plan were \$225,349 and \$234,629 in 2014 and 2013, respectively.

Erie Family Health Center, Inc.

Notes to Financial Statements June 30, 2014 and 2013

Note 13 - Contingencies

The Center 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 Center and its employees while providing services within the scope of employment included under grant-related activities. The attorney general, through the United States Department of Justice, has the responsibility for the defense of the individual and/or grantee for malpractice cases approved for FTCA coverage.

The Center has contracted with the county, city, and other agencies to perform certain healthcare services and receives Medicaid and Medicare revenue from the State of Illinois and the federal government. Reimbursements received under these contracts and payments under Medicaid and Medicare are subject to audit by federal and other governments and agencies. Upon audit, if discrepancies are discovered, the Center could be held responsible for refunding amounts in question. As of January 20, 2015, there are no pending or scheduled audits related to Medicaid and Medicare reimbursements.

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

Note 14 - Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes as of June 30, 2014 and 2013:

	2014	2013
Northwestern Memorial Hospital Home for Diabetic Patients	\$ 271,966	\$ 50,676
NorthShore University HealthSystem - Service of underserved and vulnerable populations	232,387	-
Erie Family Health Center's Campaign for Healthier Communities	155,000	-
Illinois Children's Healthcare Foundation - Healthy Minds, Healthy Children, Healthier Chicago	147,025	135,708
United Way Metropolitan Chicago - Health Services at Erie Skokie/Evanston and Chicagoland area	134,601	131,470
Crown Family Philanthropies	100,000	-
Dental Capital & Opting Support for Waukegan	100,000	-
Polk Bros. Foundation - Health and Education Services at Ryerson, Henson, and Clemente School-based Health Centers	98,248	82,916

Erie Family Health Center, Inc.

Notes to Financial Statements June 30, 2014 and 2013

Note 14 - Temporarily Restricted Net Assets (Continued)

	2014	2013
CVS Cermark Healthy Alliance	\$ 75,000	\$ -
Abbott - Patient Outreach & Navigation	50,000	-
Blue Cross and Blue Shield of Illinois - Chronic Disease Prevention & Care Coordination	50,000	-
Northwestern University McGaw Family Medicine Residency	45,833	-
Chicago Community Trust - Medical Homes	35,961	-
Prince Charitable Trusts	33,093	-
Aetna Foundation - Health and Wellness Programs	25,000	16,285
Circle of Service Foundation - Pediatric, Diabetes and Women's Health at Helping Hands	25,000	25,000
Susan G. Komen for the Cure Foundation - Access to the Breast Cancer Continuum of Care for Underserved Hispanic Women in Chicago	23,520	21,836
VNA Foundation - School Health Clemente	18,067	29,092
Illinois Department of Human Services - Healthy Families of Illinois	15,000	-
American Medical Association	15,000	-
Irvin Stern Foundation - Support of Erie Evanston/Skokie Health Center	15,000	15,000
Grant Healthcare Foundation	14,583	-
Washington Square Health Foundation Fellows	14,250	-
George M. Eisenberg Foundation for Charities	11,936	-
Helen Brach Foundation - Waukegan	10,000	-
Lloyd A. Fry Foundation - Oral Health at HP and AP	10,000	44,063
Lehman's-Mennonite Foundation	9,000	-
REAM & Harvey L. Miller Family Foundation	6,643	-
Northwestern Memorial Hospital Foundation - Diabetes Awareness	2,086	18,329
North Suburban Healthcare Foundation	1,932	1,000,000
George M. Eisenberg Foundation for Charities - Behavioral Health	254	-
Evergreen Northwestern Memorial Foundation Healthy Women	-	15,471
Avon Foundation - Breast Cancer	-	59,060
Evanston NorthShore University HealthSystem - Capital	-	1,216,652
Ravenswood Healthcare Foundation - Adolescent Health	-	78,003
Other	108,182	82,821
Total	<u>\$ 1,854,567</u>	<u>\$ 3,022,382</u>

Erie Family Health Center, Inc.

Notes to Financial Statements June 30, 2014 and 2013

Note 15 - Functional Expenses

Expenses allocated by function are as follows:

	<u>2014</u>	<u>2013</u>
Program services	\$ 36,118,538	\$ 30,187,017
Fundraising	436,349	279,551
General administration	<u>7,531,023</u>	<u>4,852,053</u>
Total expenses	<u>\$ 44,085,910</u>	<u>\$ 35,318,621</u>

Additional Information

Independent Auditor's Report on Additional Information

To the Board of Directors
Erie Family Health Center, Inc.

We have audited the financial statements of Erie Family Health Center, Inc. as of and for the years ended June 30, 2014 and 2013 and have issued our report thereon dated January 20, 2015, which contained an unmodified opinion on those financial statements. Our audit was performed for the purpose of forming an opinion on the financial statements as a whole. The statement of functional expenses and schedule of operations by federal programs are presented for the purpose of additional analysis and are 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.

Plante & Moran, PLLC

January 20, 2015

Erie Family Health Center, Inc.

Statement of Functional Expenses Year Ended June 30, 2014

	Program Services	Supporting Services	Total
Salaries and wages	\$ 22,614,259	\$ 3,629,714	\$ 26,243,973
Fringe benefits	3,901,644	812,556	4,714,200
Temporary labor	366,283	27,570	393,853
Other related personnel	39,840	139,904	179,744
Audit and legal	-	229,669	229,669
Contractual professional services	1,216,183	591,311	1,807,494
Office supplies	552,094	113,079	665,173
Medical and lab supplies	792,325	-	792,325
Pharmaceuticals	1,070,935	-	1,070,935
Contracted diagnostic services	134,207	-	134,207
Occupancy costs	1,603,099	139,400	1,742,499
Outside services	239,526	478,733	718,259
Utilities	73,483	106,336	179,819
Telephone and internet	281,354	308,727	590,081
Equipment leases, repairs, and maintenance	922,744	307,581	1,230,325
Direct patient support	116,244	-	116,244
Insurance	209,352	34,080	243,432
Printing, postage, and publications	130,561	55,955	186,516
Travel, conferences, and meetings	175,884	122,742	298,626
Depreciation and amortization	1,539,350	598,637	2,137,987
Other operating expenses	139,171	198,591	337,762
Interest	-	72,787	72,787
Total functional expenses	<u>\$ 36,118,538</u>	<u>\$ 7,967,372</u>	<u>\$ 44,085,910</u>

Erie Family Health Center, Inc.

Statement of Functional Expenses Year Ended June 30, 2013

	Program Services	Supporting Services	Total
Salaries and wages	\$ 19,149,511	\$ 2,439,870	\$ 21,589,381
Employee benefits	3,136,866	680,383	3,817,249
Temporary labor	247,975	19,228	267,203
Other related personnel	52,692	148,767	201,459
Audit and legal	-	177,348	177,348
Contractual professional services	433,560	151,900	585,460
Office supplies	556,739	108,539	665,278
Medical and lab supplies	770,289	-	770,289
Pharmaceuticals	744,111	-	744,111
Contracted diagnostic services	825,861	-	825,861
Occupancy costs	1,669,473	154,252	1,823,725
Equipment leases, repairs, and maintenance	502,341	281,120	783,461
Direct patient support	110,506	-	110,506
Insurance	156,245	26,263	182,508
Printing, postage, and publications	346,629	149,250	495,879
Travel, conferences, and meetings	144,371	93,037	237,408
Depreciation and amortization	1,191,765	447,662	1,639,427
Other operating expenses	148,083	184,810	332,893
Interest	-	69,175	69,175
Total functional expenses	<u>\$ 30,187,017</u>	<u>\$ 5,131,604</u>	<u>\$ 35,318,621</u>

Erie Family Health Center, Inc.

Schedule of Operations by Federal Programs Year Ended June 30, 2014

	Primary Health Care	HIV Health Services	Oral Health Services	Total
Revenue				
Patient services	\$ 22,484,423	\$ 185,698	\$ 1,904,753	\$ 24,574,874
Provision for bad debts	(1,066,274)	(9,753)	(597,277)	(1,673,304)
Total net patient service revenue	21,418,149	175,945	1,307,476	22,901,570
Department of Health and Human Services grants	6,256,751	395,257	1,939,204	8,591,212
Contract services and other grants	7,224,816	438,935	174,500	7,838,251
Contributions and other	1,703,572	55,707	26,615	1,785,894
Temporarily restricted grants	1,640,597	-	-	1,640,597
Total revenue	38,243,885	1,065,844	3,447,795	42,757,524
Expenses				
Salaries and benefits	28,740,012	223,110	1,995,051	30,958,173
Other operating expenses	10,388,202	182,874	345,887	10,916,963
Interest	72,787	-	-	72,787
Total expenses	39,201,001	405,984	2,340,938	41,947,923
Operating (Loss) Income Prior to Depreciation and Amortization	(957,116)	659,860	1,106,857	809,601
Depreciation and Amortization	2,035,730	2,523	99,734	2,137,987
Operating (Loss) Income	(2,992,846)	657,337	1,007,123	(1,328,386)
Capital Projects - Grants and contributions	4,038,468	-	-	4,038,468
Share of Alliance Income	75,454	-	-	75,454
Change in Net Assets	<u>\$ 1,121,076</u>	<u>\$ 657,337</u>	<u>\$ 1,007,123</u>	<u>\$ 2,785,536</u>

Erie Family Health Center, Inc.

Schedule of Operations by Federal Programs Year Ended June 30, 2013

	Primary Health Care	HIV Health Services	Oral Health Services	Total
Revenue				
Patient services	\$ 18,787,137	\$ -	\$ 1,734,095	\$ 20,521,232
Provision for bad debts	(501,554)	(22,348)	(92,609)	(616,511)
Total net patient service revenue	18,285,583	(22,348)	1,641,486	19,904,721
Department of Health and Human Services grants	6,607,760	556,142	1,061,965	8,225,867
Contract services and other grants	4,464,065	330,007	43,040	4,837,112
Contributions and other	1,395,750	58,977	24,138	1,478,865
Temporarily restricted grants	1,698,704	-	96,785	1,795,489
Total revenue	32,451,862	922,778	2,867,414	36,242,054
Expenses				
Salaries and benefits	23,256,796	675,898	1,473,936	25,406,630
Other operating expenses	6,746,836	254,857	1,201,696	8,203,389
Interest	69,175	-	-	69,175
Total expenses	30,072,807	930,755	2,675,632	33,679,194
Operating Income (Loss) Prior to Depreciation and Amortization	2,379,055	(7,977)	191,782	2,562,860
Depreciation and Amortization	1,577,429	5,666	56,332	1,639,427
Operating Income (Loss)	801,626	(13,643)	135,450	923,433
Capital Projects - Grants and contributions	2,925,716	-	-	2,925,716
Share of Alliance Income	139,250	-	-	139,250
Change in Net Assets	\$ 3,866,592	\$ (13,643)	\$ 135,450	\$ 3,988,399

Independent Auditor's Report on Supplemental Grant Report

To the Board of Directors
Erie Family Health Center, Inc.
Chicago, Illinois

We have audited the financial statements of Erie Family Health Center, Inc. as of and for the year ended June 30, 2014 and our report thereon dated January 20, 2015, which expressed an unqualified opinion on those financial statements, appears on pages 1 and 2. Our audit was conducted for the purpose of forming an opinion on the 2014 financial statements as a whole. The Grant Report for the State of Illinois fiscal year ended June 30, 2014 on pages 30 and 31 is presented for the purpose of additional analysis, as required by the Illinois Department of Human Services, 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 2014 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, such information is fairly stated in all material respects in relation to the 2014 financial statements as a whole.

Plante & Moran, PLLC

January 20, 2015

ILLINOIS DEPARTMENT OF HUMAN SERVICES
 GRANT REPORT For the period July 1 through June 30, 2014
 Page 1 of 2-Grant allowable Cost Summary

AGENCY NAME: ERIE FAMILY HEALTH CENTER

FEIN:36-3088628

	DHS GRANT-FUNDED SERVICES								All other Programs	Mgmt & General	Total
	Program 1	Program 2	Program 3	Program 4	Program 5	Program 6	Program 7	Program 8			
Program Name/Number/Contract Number/Other Identification	Teen Pregnancy Prevention Contract # FCSRE00724	School Based/Linked Health Contract # FCSRE00747	Healthy Families of Illinois Contract # FCSRE00686	Healthy Start Contract # FCSRE01679	Family Planning Services Contract # FCSRE01679	Family Case Management Chicago Contract # FCSRE01758	Addiction Treatment Contract # 43CRC00342				
A Direct Program expenses	68,396	513,335	289,111	97,062	793,167	1,304,217	228,599	-	32,824,651	7,967,372	44,085,910
B Allocate Management and General Costs (Note 1)	None	None	None	None	None	None	None	None	7,967,372	(7,967,372)	-
C SUBTOTAL A + B	68,396	513,335	289,111	97,062	793,167	1,304,217	228,599	-	40,792,023	-	44,085,910
D Subtract Unallowable costs per page 2	None	None	None	None	None	None	None	None			
E Add other approved uses (attach documentation)	None	None	None	None	None	None	None	None			
F TOTAL Allowable costs	68,396	513,335	289,111	97,062	793,167	1,304,217	228,599	-			
G Special provisions (see instructions)	None	None	None	None	None	None	None	None			
H Interest Earned (see instructions)	None	None	None	None	None	None	None	None			

NOTE 1: Management and General costs are allocated based on : _____ direct salaries, _____ total direct costs, X other basis (attach explanation) *

* Allocation is based on program expense ratio



UNALLOWABLE COST REPORT

Agency Name: ERIE FAMILY HEALTH CENTER

FEIN: 36-3088628

Program Name/Number/Contract Number	DHS Grant-Funded Services				
	Program 1	Program 2	Program 3	Program 4	Program 5
	ALL				

Unallowable Costs (see instructions)

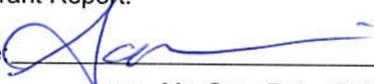
Compensation of Governing Body	NONE				
Entertainment	NONE				
Association Dues	NONE				
Meetings and Conventions	NONE				
Fundraising	NONE				
Bad Debt	NONE				
Charity and Grants	NONE				
Unallowable Interest	NONE				
Inventories	NONE				
Depreciation of DHS-funded Assets	NONE				
Cost of Production	NONE				
In-Kind Expenses	NONE				
Alcoholic Beverages	NONE				
Personal Automobile	NONE				
Fines and Penalties	NONE				
Personal Use Items	NONE				
Lobbying	NONE				
Unallowable Relocation	NONE				
Gratuities	NONE				
Political Contributions	NONE				
Related Party Transactions	NONE				
Costs Where a Conflict of Interest Exists	NONE				

Unallowable Cost if Program is Federally Funded or Cost Restricted by Contract (See Instructions)

Explain:					
Explain:					
Total Unallowable Costs (to line D of Grant Report) - See below if None					

If no unallowable costs are listed, sign and date as follows:

I certify that no unallowable costs are included in either direct costs or allocated Management and General costs on the Grant Report.

Signature: 

Date: December 09, 2014

Printed Name and Title: Mr. Gary Raju, Chief Financial Officer

Erie Family Health Center, Inc.

**Federal Awards
Supplemental Information
June 30, 2014**

Erie Family Health Center, Inc.

Contents

Independent Auditor's Reports:

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133	I
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	2-3
Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance	4-5
Schedule of Expenditures of Federal Awards	6
Notes to Schedule of Expenditures of Federal Awards	7-8
Schedule of Findings and Questioned Costs	9-15



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Report on Schedule of Expenditures of Federal Awards
Required by OMB Circular A-133

Independent Auditor's Report

To the Board of Directors
Erie Family Health Center, Inc.

We have audited the financial statements of Erie Family Health Center, Inc. (the "Center") as of and for the year ended June 30, 2014 and have issued our report thereon dated January 20, 2015, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. We have not performed any procedures with respect to the audited financial statements subsequent to January 20, 2015.

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

Plante & Moran, PLLC

Chicago, Illinois
January 20, 2015



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

Independent Auditor's Report

To Management and the Board of Directors
Erie Family Health Center, Inc.

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 Erie Family Health Center, Inc. (the "Center"), which comprise the balance sheet as of June 30, 2014 and the related statements of operations and 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 January 20, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Erie Family Health Center, Inc.'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Center's internal control. Accordingly, we do not express an opinion on the effectiveness of the Center's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as Findings 2014-001, 2014-002, and 2014-003 to be material weaknesses.

To Management and the Board of Directors
Erie Family Health Center, Inc.

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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as Findings 2014-004, 2014-005, and 2014-006 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Erie Family Health Center, Inc.'s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Erie Family Health Center, Inc.'s Responses to Findings

Erie Family Health Center, Inc.'s responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. Erie Family Health Center, Inc.'s responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

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

Plante & Moran, PLLC

Chicago, Illinois
January 20, 2015

Report on Compliance for Each Major Federal Program;
Report on Internal Control Over Compliance
Independent Auditor's Report

To the Board of Directors
Erie Family Health Center, Inc.

Report on Compliance for Each Major Federal Program

We have audited Erie Family Health Center, Inc.'s (the "Center") 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 its major federal programs for the year ended June 30, 2014. Erie Family Health Center, Inc.'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.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Erie Family Health Center, Inc.'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 Erie Family Health Center, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

To the Board of Directors
Erie Family Health Center, Inc.

Opinion on Each Major Federal Program

In our opinion, Erie Family Health Center, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

Report on Internal Control Over Compliance

Management of Erie Family Health Center, Inc. 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 Erie Family Health Center, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Center's internal control over compliance.

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

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

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

Plante & Moran, PLLC

Chicago, Illinois
January 20, 2015

Erie Family Health Center, Inc.

Schedule of Expenditures of Federal Awards Year Ended June 30, 2014

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Pass-through Grantor's Number	Federal Expenditures
U.S. Department of Health and Human Services:			
Direct Program:			
Consolidated Health Centers Cluster	93.224	N/A	\$ 5,781,804
Consolidated Health Centers Cluster	93.527	N/A	270,267
Subtotal			6,052,071
Capital Development	93.526	N/A	3,104,269
HIV Early Intervention with Respect to:			
HIV Disease	93.918	N/A	393,601
Healthy Tomorrows Partnership for Children Program	93.110	N/A	48,873
Passed through U.S. Department of Health and Human Services - Health Resources and Services Administration (HRSA):			
Faculty Development in Primary Care	93.884	D55HP23201	158,596
Affordable Care Act Teaching Health Center (THC) Graduate Medical Education (GME) Payment Program	93.530	T91HP21542	1,838,557
ARRA - Community Health Applied Research Network	93.420	UB2HA20234	3,625
Center for Advancing Equity in Clinical Preventive Services	93.226	60030160 EFHC	66,709
Passed through Chicago Department of Health:			
Ryan White Part A - Primary Care	93.914	23749	203,378
Maternal and Child Health Program/WIC Program	10.557	28807	343,065
Passed through AIDS Foundation of Chicago -			
Ryan White Part B - Medical Case Management	93.917	25780055	200,862
Passed through Illinois Department of Human Services:			
Healthy Start	93.926	82592440D	177,986
IL SBIRT Initiative	93.243	43CSC00097	526,706
MCH Block Grant	93.994	828724400	126,000
Passed through Illinois Department of Health -			
Affordable Care Act In-Person Counselor	93.525	40180031B	627,631
Total expenditures of federal awards			\$ 13,871,929

Erie Family Health Center, Inc.

Notes to Schedule of Expenditures of Federal Awards Year Ended June 30, 2014

Note 1 - Basis of Presentation and Significant Accounting Policies

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of Erie Family Health Center, Inc. (the "Center") under programs of the federal government for the year ended June 30, 2014. Expenditures reported on the Schedule are reported on the same basis of accounting as the basic financial statements, although the basis for determining when federal awards are expended is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. In addition, expenditures reported on the Schedule 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 as to reimbursement. Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Because the Schedule presents only a selected portion of the operations of Erie Family Health Center, Inc., it is not intended to, and does not, present the financial position, changes in net assets, or cash flows, if applicable, of Erie Family Health Center, Inc. Pass-through entity identifying numbers are presented where available.

Note 2 - Loans Outstanding

The Center had no loan balances outstanding at June 30, 2014.

Note 3 - Noncash Assistance

The Center neither received nor disbursed federal awards in the form of nonmonetary assistance for the year ended June 30, 2014.

Erie Family Health Center, Inc.

Notes to Schedule of Expenditures of Federal Awards Year Ended June 30, 2014

Note 4 - Subrecipient Awards

Of the federal expenditures presented in the Schedule, federal awards were provided to subrecipients as follows:

<u>Federal Program Title</u>	<u>CFDA Number</u>	<u>Amount Provided to Subrecipients</u>
Association House	93.525	\$ 11,422
Chicago House & Social Center of Chicago	93.525	19,416
Community Counseling Center of Chicago	93.525	23,755
PCC Community Wellness	93.525	41,110
Near North Health Services	93.525	40,966
Norwegian American Hospital	93.525	63,954
PrimeCare Community Health	93.525	49,283
Puerto Rican Cultural Center	93.525	30,545
	Total	<u>\$ 280,451</u>

Erie Family Health Center, Inc.

Schedule of Findings and Questioned Costs Year Ended June 30, 2014

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? Yes None reported

Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? Yes None reported

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? Yes No

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
93.526	Capital Development
93.243	Substance Abuse and Mental Health Services
93.525	Affordable Care Act

Dollar threshold used to distinguish between type A and type B programs: \$416,158

Auditee qualified as low-risk auditee? Yes No

Erie Family Health Center, Inc.

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2014

Section II - Financial Statement Audit Findings

Reference Number	Finding
2014-001	<p>Finding Type - Material Weakness</p> <p>Criteria - The Center should follow accounting principles generally accepted in the United States of America when recording grants and contribution revenue and net assets released from restrictions.</p> <p>Condition - The Center did not follow its existing policy for how it determines the proper revenue recognition for nonfederal grants and contributions.</p> <p>Context - Out of a sample of 10 donor-restricted contributions, five were found to be in error. In addition, out of a sample of eight releases from restrictions, four were found to be in error.</p> <p>Cause - The existing revenue recognition accounting policy was not followed.</p> <p>Effect - There was inconsistency in how revenue was recognized and seven audit adjustments were recorded with an overall increase in revenue of \$91,370.</p> <p>Recommendation - Follow the existing revenue recognition policy, which can be documented using the contribution-exchange transaction matrix.</p> <p>Views of Responsible Officials and Planned Corrective Actions - Effective immediately, management will follow its policy and re-educate staff regarding policies and procedures. Upon the receipt of a grant contract, the exchange transaction matrix will be completed and signed by the controller, CFO, and VP of development. Management is redesigning the grant acquisition and management process. The Center will retain expert external consultation. Management will enhance the monthly close checklist and implement a monthly close review meeting with the CEO, CMO, and COO.</p>

Erie Family Health Center, Inc.

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2014

Section II - Financial Statement Audit Findings (Continued)

Reference Number	Finding
2014-002	<p>Finding Type - Material Weakness</p> <p>Criteria - The Center should follow accounting principles generally accepted in the United States of America when recognizing capitalized fixed assets and related liabilities.</p> <p>Condition - The Center's finance department was not aware that a June 2014 construction invoice had been received and was awaiting approval for payment.</p> <p>Context - Out of a sample of 40 invoices tested, one was found to be in error.</p> <p>Cause - The existing accounts payable process lacked a mechanism for tracking where invoices are in the approval process.</p> <p>Effect - Construction in progress and accounts payable were understated by \$1,955,551.</p> <p>Recommendation - Implement year-end review procedures to ensure that liabilities are recorded in the proper period. In the event the receipt of invoices is delayed, record an accrual using a good-faith estimate.</p> <p>Views of Responsible Officials and Planned Corrective Actions - Beginning in fiscal year 2015, management will accrue monthly CIP activity based on an estimate of project completion from the contractor consistent with GAAP Accounting Standards Codification 605-35. As invoices from the contractor are received, we will true-up the accrual appropriately. Management will enhance the monthly close checklist to include a review of all construction activity with the facilities department and implement a monthly close review meeting with the CEO, CMO, and COO.</p>

Erie Family Health Center, Inc.

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2014

Section II - Financial Statement Audit Findings (Continued)

Reference Number	Finding
2014-003	<p>Finding Type - Material Weakness</p> <p>Criteria - The Center should follow its existing internal control policy for dental billings.</p> <p>Condition - There was a delay in the submission of dental billings for reimbursement to Dentaquest which resulted in the reimbursements being denied, and the existing monitoring controls did not detect the delay in a timely manner.</p> <p>Context - The dental billings that were denied by Dentaquest for reimbursement represent 25 percent of total dental service revenue for the year ended June 30, 2014.</p> <p>Cause - The existing dental billing process did not identify the submission delays in a timely manner.</p> <p>Effect - The Center established an allowance for doubtful accounts of \$482,676 for the uncollectible dental receivable balances.</p> <p>Recommendation - Follow existing monitoring controls over the dental billing process so services are billed timely and that billing discrepancies between the Center and funding agencies can be resolved timely.</p> <p>Views of Responsible Officials and Planned Corrective Actions - Prior to April 1, 2014, dental billing reported directly to dental operations. In April, dental billing was transitioned to the medical billing department and its system, GE Centricity. We currently review dental A/R aging as a part of our monthly close checklist utilizing the allowance for doubtful accounts (AFDA) methodology to ensure that sufficient reserves are in place for uncollectible dental and medical patient receivables. In addition, a monthly close review meeting with the CEO, CMO, and COO will be implemented. We will continue to hire, train, and expand our billing team.</p>

Erie Family Health Center, Inc.

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2014

Section II - Financial Statement Audit Findings (Continued)

Reference Number	Finding
2014-004	<p>Finding Type - Significant Deficiency</p> <p>Criteria - The Center should follow its existing internal control policy for bank reconciliations.</p> <p>Condition - The bank reconciliation review process did not discover certain errors contained in the June 30, 2014 operating account bank reconciliation. The bank reconciliation included errors in outstanding checks and deposits in transit.</p> <p>Context - Out of a sample of 13 bank reconciliations tested, one contained errors.</p> <p>Cause - The existing bank reconciliation review process was not detailed enough to detect erroneous reconciling items.</p> <p>Effect - Cash was overstated by \$810,585, grants receivable was understated by \$584,726, and accounts payable was overstated by \$225,859.</p> <p>Recommendation - Review bank reconciliations to ensure completeness and accuracy.</p> <p>Views of Responsible Officials and Planned Corrective Actions - Management will ensure that its reconciliation process is effective and will be followed going forward by re-educating staff regarding policies and procedures. Review of all reconciliations has been incorporated into our monthly close checklist. Management will enhance the monthly close checklist to include a review of all bank reconciliations and will implement a monthly close review meeting with the CEO, CMO, and COO.</p>

Erie Family Health Center, Inc.

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2014

Section II - Financial Statement Audit Findings (Continued)

Reference Number	Finding
2014-005	<p>Finding Type - Significant Deficiency</p> <p>Criteria - The Center should follow its existing internal control policy for general ledger account reconciliations.</p> <p>Condition - The Center did not reconcile the accrued bonus account as of year end.</p> <p>Context - Accrued bonuses represent 6 percent of total current liabilities as of June 30, 2014.</p> <p>Cause - Due to turnover in staffing, the general ledger reconciliation process related to accrued bonuses was not completed.</p> <p>Effect - Accrued bonus liability and compensation expense were overstated by \$369,651.</p> <p>Recommendation - Reconcile general ledger accounts on a monthly basis and review reconciliations for completeness and accuracy.</p> <p>Views of Responsible Officials and Planned Corrective Actions - The bonus accruals are now reconciled every month as a part of our monthly close checklist. A monthly close review meeting with the CEO, CMO, and COO will be implemented.</p>

Erie Family Health Center, Inc.

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2014

Section II - Financial Statement Audit Findings (Continued)

Reference Number	Finding
2014-006	<p>Finding Type - Significant Deficiency</p> <p>Criteria - The Center should follow its existing internal control policy for general ledger account reconciliations.</p> <p>Condition - The Center did not finalize its analysis of the allowance for doubtful patient accounts receivable as of year end.</p> <p>Context - The allowance for doubtful accounts represents 3 percent of total assets as of June 30, 2014.</p> <p>Cause - Due to turnover in staffing, the year-end allowance for doubtful accounts analysis and general ledger reconciliation process was not completed in a timely manner.</p> <p>Effect - The Center increased the allowance for doubtful accounts and bad debt expense by \$461,956.</p> <p>Recommendation - Review and adjust the allowance for doubtful accounts on a monthly basis so that management can monitor the collectibility of receivables more accurately.</p> <p>Views of Responsible Officials and Planned Corrective Actions - Effective immediately, management will follow its policy and the allowance for doubtful accounts methodology and re-educate staff regarding these policies and procedures. Management will enhance the monthly close checklist and implement a monthly close review meeting with the CEO, CMO, and COO.</p>

Section III - Federal Program Audit Findings

None