Esperanza Health Center, Inc.

Financial and Compliance Report
June 30, 2014

Contents

McGladrey

Independent Auditor's Report

To the Board of Directors
Esperanza Health Center, Inc.
Philadelphia, Pennsylvania

Report on the Financial Statements
We have audited the accompanying financial statements of Esperanza Health Center, Inc. (the Center), which comprise the balance sheets 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 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 the Center as of June 30, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Other 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 as required by the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, are presented for purposes 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 schedule of expenditures of federal awards 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 reports dated February 23, 2015 and March 24, 2014 on our consideration of the Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of these reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Center's internal control over financial reporting and compliance.

McGladrey LLP

New York, New York
February 23, 2015

Esperanza Health Center, Inc.

Balance Sheets
June 30, 2014 and 2013

Assets		**2014**		2013
Current Assets				
Cash and cash equivalents	**$**	**5,713,117**	$	3,979,193
Patient services receivable, net of contractual adjustments		**1,980,876**		1,425,283
Grants receivable		**167,446**		68,027
Contracts receivable		**177,185**		41,160
Prepaid expenses and other current assets		**83,612**		84,705
Total current assets		**8,122,236**		5,598,368
Property and Equipment				
Land		**275,334**		275,334
Furniture and equipment		**1,012,693**		1,012,693
Leasehold improvements		**723,435**		723,435
Building and improvements		**6,873,464**		6,547,948
		8,884,926		8,559,410
Less accumulated depreciation and amortization		**1,559,488**		1,122,557
Net property and equipment		**7,325,438**		7,436,853
Security Deposits		**34,869**		35,747
Total assets	**$**	**15,482,543**	$	13,070,968
Liabilities and Net Assets				
Current Liabilities				
Accounts payable and accrued expenses	**$**	**603,504**	$	429,101
Accrued compensation		**659,216**		548,422
Total current liabilities		**1,262,720**		977,523
Deferred Rent Liability		**112,090**		117,268
Total liabilities		**1,374,810**		1,094,791
Commitments and Contingencies				
Net Assets				
Unrestricted:				
Undesignated		**11,036,127**		10,019,347
Board designated reserve		**2,805,365**		1,893,483
		13,841,492		11,912,830
Temporarily restricted		**266,241**		63,347
Total net assets		**14,107,733**		11,976,177
Total liabilities and net assets	**$**	**15,482,543**	$	13,070,968

See Notes to Financial Statements.

Esperanza Health Center, Inc.

Statements of Operations and Changes in Net Assets
Years Ended June 30, 2014 and 2013

	2014	2013
Unrestricted Revenue and Support		
Revenue:		
Patient services, net of contractual adjustments	**$ 14,136,772**	$ 10,885,662
Provision for bad debt	**(368,718)**	(30,588)
Net patient services revenue less provision for bad debt	**13,768,054**	10,855,074
Other	**262,011**	186,562
Net assets released from restriction	**119,361**	235,993
	14,149,426	11,277,629
Support		
DHHS grants	**1,492,517**	1,458,218
Contract services and other grants	**813,809**	583,675
Contributions	**240,078**	152,046
Donated services	**89,567**	108,000
	2,635,971	2,301,939
Total unrestricted revenue and support	**16,785,397**	13,579,568
Expenses		
Salaries and wages	**7,118,870**	6,045,319
Employee benefits	**2,268,671**	1,828,000
Pharmaceuticals	**2,583,015**	2,007,758
Consultant and contractual services	**1,235,156**	1,104,672
Depreciation and amortization	**436,931**	455,045
Occupancy	**392,217**	336,021
Consumable supplies	**248,180**	198,304
Equipment rental, repairs and maintenance	**221,884**	215,156
Laboratory	**138,784**	107,755
Other	**136,088**	93,079
Professional fees	**122,588**	98,915
Telephone	**109,055**	88,486
Travel, conferences and meetings	**99,100**	87,999
Insurance	**21,876**	60,052
Printing, postage and publications	**27,111**	26,514
Dues and subscriptions	**22,725**	16,667
Total expenses	**15,182,251**	12,769,742
Excess of revenue and support over expenses	**1,603,146**	809,826

(Continued)

Esperanza Health Center, Inc.

Statements of Operations and Changes in Net Assets (Continued)
Years Ended June 30, 2014 and 2013

	2014	2013
Unrestricted Net Assets		
Excess of revenue and support over expenses	**$ 1,603,146**	$ 809,826
DHHS grants for capital expenditures	**325,516**	-
Increase in unrestricted net assets	**1,928,662**	809,826
Temporarily Restricted Net Assets		
Contributions for program services	**322,255**	146,428
Net assets released from restriction	**(119,361)**	(235,993)
Increase (decrease) in temporarily restricted net assets	**202,894**	(89,565)
Increase in net assets	**2,131,556**	720,261
Net Assets		
Beginning	**11,976,177**	11,255,916
Ending	**$ 14,107,733**	$ 11,976,177

See Notes to Financial Statements.

Esperanza Health Center, Inc.

Statements of Cash Flows
Years Ended June 30, 2014 and 2013

	2014	2013
Cash Flows From Operating Activities		
Increase in net assets	**$ 2,131,556**	$ 720,261
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	**436,931**	455,045
Grants for capital expenditures	**(325,516)**	-
Provision for bad debt	**368,718**	30,588
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Grants receivable	**(99,419)**	(7,821)
Patient services receivable	**(924,311)**	(302,618)
Contracts receivable	**(136,025)**	15,638
Prepaid expenses and other current assets	**1,093**	(7,628)
Increase (decrease) in:		
Accounts payable and accrued expenses	**174,403**	73,290
Accrued compensation	**110,794**	74,455
Deferred rent liability	**(5,178)**	-
Net cash provided by operating activities	**1,733,046**	1,051,210
Cash Flows From Investing Activities		
Purchases of property and equipment	**(325,516)**	(211,198)
Decrease in security deposits	**878**	2,068
Net cash used in investing activities	**(324,638)**	(209,130)
Cash Flows From Financing Activities		
Cash received from DHHS grants for capital expenditures	**325,516**	-
Net cash provided by financing activities	**325,516**	-
Net increase in cash and cash equivalents	**1,733,924**	842,080
Cash and Cash Equivalents		
Beginning	**3,979,193**	3,137,113
Ending	**$ 5,713,117**	$ 3,979,193

See Notes to Financial Statements.

Note 1. Organization

Esperanza Health Center, Inc. (the Center) operates three healthcare centers located in North Philadelphia, Pennsylvania. The Center provides high-quality and culturally sensitive healthcare, health education and counseling services from a Christian perspective to the Latino community.

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

Note 2. Significant Accounting Policies

Basis of presentation: The Center classifies its net assets into three categories, which are unrestricted, temporarily restricted and permanently restricted.

Unrestricted net assets are reflective of revenues and expenses associated with the principal operating activities of the Center and are not subject to donor-imposed stipulations.

Temporarily restricted net assets are subject to donor-imposed stipulations that may or will be met either by actions of the Center and/or the passage of time. When a donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and are reported in the statements of operations and changes in net assets as net assets released from restriction. Temporarily restricted net assets were $266,241 and $63,347 at June 30, 2014 and 2013, respectively.

Permanently restricted net assets are subject to donor-imposed stipulations that must be maintained permanently by the Center. There were no permanently restricted net assets at June 30, 2014 and 2013.

Results of operations: The statements of operations and changes in net assets include excess of revenue and support over expenses that represents the results of operations. Changes in unrestricted net assets which are excluded from excess of revenue and support over expenses, consistent with industry practice, include contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purpose of acquiring such assets) and government grants to acquire long-lived assets.

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. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. The use of estimates and assumptions in the preparation of the accompanying financial statements is primarily related to the determination of net patient services receivable.

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

Patient services receivable: The collection of receivables from third-party payors and patients is the Center's primary source of cash for operations and is critical to its operating performance. The primary collection risks relate to uninsured patient accounts and patient accounts for which the primary insurance payor has paid, but patient responsibility amounts (deductibles and copayments) remain outstanding.

Patient services receivable from third-party payors are carried at a net amount determined by the original charge for the service provided, less an estimate made for contractual adjustments or discounts provided to third-party payors.

Note 2. Significant Accounting Policies (Continued)

Receivables due directly from patients are carried at the original charge for the service provided, less discounts provided under the Center's charity care policy, less amounts covered by third-party payors and less an estimated allowance for doubtful receivables. Management determines the allowance for doubtful accounts by identifying troubled accounts and by historical experience applied to an aging of accounts. The Center considers accounts past due when they are outstanding beyond 60 days with no payment. The Center generally does not charge interest on past due accounts. Patient services receivable are written off as bad debt expense when deemed uncollectible. Recoveries of receivables previously written off are recorded as a reduction of bad debt expense when received. The allowance for doubtful accounts was $1,200,264 and $707,861 at June 30, 2014 and 2013, respectively.

Grants receivable: Grants receivable consists of costs under the grant agreements which were incurred prior to year-end for which payment has not been received.

Contracts receivable: Contracts receivable reflect amounts earned but not yet collected for which the Center expects to realize collection of payment.

Property and equipment: Property and equipment are recorded at cost or, if donated, at the fair value at the date of donation. Depreciation and amortization are recorded on a straight-line basis over the estimated useful lives of the assets, which range from 5 to 40 years. Leasehold improvements are amortized on a straight-line basis over the estimated useful life of the improvement or the term of the lease, whichever is less. The Center capitalizes all purchases of property and equipment in excess of $5,000.

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

Deferred rent: Rents on operating leases are reported whereby total rent expense under the leases is charged to operations on the straight-line basis over the term of the related leases. Deferred rent was $112,090 and $117,268 at June 30, 2014 and 2013, respectively. The adjustment to record deferred rent is included in occupancy expenses.

Patient services revenue: Patient services revenue is reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered, including retroactive adjustments under reimbursement agreements with third-party payors, which are subject to audit by administering agencies. These adjustments are accrued on an estimated basis and are adjusted in future periods as final settlements are determined. The Center has agreements with third-party payors that provide for payments to the Center at amounts different from its established rates. Payment arrangements include predetermined fee schedules and discounted charges. The Center provides care to certain patients under Medicaid and Medicare payment arrangements. Self-pay revenue is recorded at published charges with charitable allowances based on a sliding-fee scale deducted to arrive at net self-pay revenue.

The Center’s allowance for doubtful accounts for third-party payors and patients increased from 33% of patient services receivable at June 30, 2013, to 37% at June 30, 2014. In addition, the Center’s write-offs increased from $30,588 for fiscal year 2013 to $368,718 for fiscal year 2014. Both increases were the result of receivables specifically identified by management as uncollectible. The Center has not changed its charity care or uninsured discount policies during fiscal years 2014 or 2013.

Note 2. Significant Accounting Policies (Continued)

Grant revenue: Grants are recognized as revenue when earned. Expense reimbursement-based grants are recognized as revenue when the qualifying expenses have been incurred and all other grant requirements have been met. Grant funds received prior to the incurrence of the qualifying expenses are deferred.

At June 30, 2014, the Center has received grants from governmental entities that have not been recorded in these financial statements as they have not been earned. These grants require the Center to provide certain healthcare services during specified periods. If such services are not provided, the governmental entities are not obligated to expend the funds allotted under the grants. Grants awarded for the acquisition of long-lived assets are reported as unrestricted nonoperating support during the fiscal year in which the assets are acquired.

Contract revenue: Contract revenue is recognized as revenue when earned. Expense-driven contracts are recognized as revenue when the qualifying expenses have been incurred and all other contract requirements have been met, including the execution of the contract.

Contributions: Contributions are recorded at fair value when received or pledged. Amounts are recorded as temporarily or permanently restricted revenue if they have donor stipulations that limit the use of the donated assets. Bequests are recognized when the probate court declares the will valid. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted assets are reclassified to unrestricted net assets and reported in the statements of operations and changes in net assets as net assets released from restriction. When stipulated restrictions are satisfied during the year that the contributions are received, the contributions are report as unrestricted activity.

Donated services: Contributions of donated services are reported as revenue and expenses at fair value if such services create or enhance nonfinancial assets, or require special skills and are provided by individuals possessing such special skills and would typically need to be purchased by the Center had it not been donated. The fair value of donated services is based on the differential between the compensation received by the Center’s providers and the minimum compensation that is paid to similar providers in this region as indicated from independent sources.

Tax status: The Center was incorporated as a not-for-profit corporation under the laws of the Commonwealth of Pennsylvania and is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. Therefore, there is no provision for income taxes. In addition, the Center is not classified as a private foundation.

The Center follows the accounting standard on accounting for uncertainty in income taxes, which addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under this guidance, the Center may recognize the tax benefit from an uncertain tax position only if it is "more likely than not" that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The guidance on accounting for uncertainty in income taxes also addresses derecognition, classification, interest and penalties on income taxes, and accounting in interim periods.

Management evaluated the Center's tax positions and concluded that the Center had taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of this guidance. Generally, the Center is no longer subject to income tax examinations by U.S. federal, state or local tax authorities for final years before 2011, which is the standard statute of limitations look-back period.

Note 2. Significant Accounting Policies (Continued)

Reclassifications: Certain reclassifications have been made to the 2013 financial statements to conform with the 2014 financial statement presentation. These reclassifications had no impact on total assets, total liabilities, and increase in net assets or total cash flows as previously stated.

Recently issued accounting pronouncements: In October 2012, the Financial Accounting Standards Board (the FASB) issued Accounting Standards Update (ASU) 2012-04, *Technical Corrections and Improvements*. The amendments in this update cover a wide range of topics including technical corrections and improvements to the Accounting Standards Codification (ASC) and conforming amendments related to fair value measurements. The amendments in this update will generally be effective for fiscal periods beginning after December 15, 2013 for nonpublic entities, except for amendments in this update where there was no transition guidance and which were immediately effective upon issuance. The adopting of this ASU did not have a material impact on the Center’s financial statements.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The amendments in this ASU create Topic 606, *Revenue from Contracts with Customers*, and supersede the revenue recognition requirements in Topic 605, *Revenue Recognition*, including most industry-specific revenue recognition guidance throughout the Industry Topics of the Codification. In addition, the amendments supersede the cost guidance in Subtopic 605-35, *Revenue Recognition—Construction-Type and Production-Type Contracts*, and create new Subtopic 340-40, *Other Assets and Deferred Costs—Contracts with Customers*. In summary, the core principle of Topic 606 is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The amendments in this ASU are effective for annual reporting periods beginning after December 15, 2017. The impact of adopting ASU 2014-09 on the Center’s financial statements for subsequent periods has not yet been determined.

Subsequent events: The Center evaluates events occurring after the date of the financial statements to consider whether or not the impact of such events needs to be reflected and/or disclosed in the financial statements. Such evaluation is performed through the date the financial statements are available to be issued, which was February 23, 2015 for these financial statements.

Note 3. Net Patient Services Revenue

The Center has agreements with third-party payors which provide for reimbursement to the Center at amounts different from its established rates. Contractual adjustments under third-party reimbursement programs represent the difference between the Center's billings at list price and the amounts reimbursed by Medicare, Medicaid and certain other third-party payors and any differences between estimated third-party reimbursement settlements for prior years and subsequent final settlements. A summary of the basis of reimbursement with major third-party payors follows:

Medicare: The Center is paid for patient care services rendered to Medicare program beneficiaries primarily under contractual agreements with third-party Medicare Advantage plans. Additional wraparound reimbursement by a fiscal intermediary is paid on a per encounter basis, according to a cost-based reimbursement system, with a cap for health centers in urban communities. For the years ended June 30, 2014 and 2013, Medicare represented approximately 8% and 9%, respectively, of net patient services revenue from services provided.

Note 3. Net Patient Services Revenue (Continued)

Medicaid: The Center is paid for patient services rendered to Medicaid program beneficiaries primarily under contractual agreements with third-party Medicaid managed care organizations. Additional wraparound reimbursement by the Pennsylvania Department of Human Services is generally paid quarterly on a per encounter basis, according to a cost-based reimbursement system. For the years ended June 30, 2014 and 2013, Medicaid represented approximately 56% and 57%, respectively, of net patient services revenue from services provided.

Other third-party: The Center has also entered into reimbursement agreements with certain non-Medicaid commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment under these agreements includes discounts from established charges and prospectively determined per diem rates. For both years ended June 30, 2014 and 2013, other third-party insured represented approximately 4% of net patient services revenue from services provided.

Medication dispensary: The Center operates a 340b drug pricing program through a contractual agreement with an independent pharmacy. The service is available only to the Center's patients and can be obtained both through on-site pick up and via mail order. These medications are paid for under contractual relationships with the patient's insurance plan or at a greatly discounted rate for uninsured patients. This discount is not included in the charity care amounts in Note 4. For the years ended June 30, 2014 and 2013, medication dispensary represented approximately 32% and 30%, respectively, of net patient services revenue from services provided.

Laws and regulations governing Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The Center believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation, as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs.

Note 4. Charity Care and Social Accountability

The Center is a Federally Qualified Health Center (FQHC), which is a type of provider defined by Section 330 of the Public Health Services Act. The Center provides care to patients utilizing a sliding-fee scale with discounts based on patient family size and income in accordance with federal poverty guidelines. The Center is open to all, regardless of their ability to pay. The amount not recovered under the sliding-fee scale is not reported as revenue as it is not expected to be paid. The Center maintains records to identify and monitor the level of charity care it provides. The amount of charity care provided during the years ended June 30, 2014 and 2013 was $982,381 and $724,126, respectively, and was estimated by allocating total expenses incurred by the Center to the gross revenue earned serving patients under the sliding-fee scale.

Note 5. Concentration of Credit Risk

The mix of gross receivables from patient services and third-party payors is as follows:

	Gross Receivables	
	2014	2013
Medicaid	63 %	72 %
Medicare	15	11
Other third-party payors	6	4
Self-pay	2	-
Medication dispensary	14	13
	100 %	100 %

Note 6. Line of Credit

The Center has a revolving line of credit of $500,000 from a financial institution which matures on April 29, 2015. The line of credit is secured by all assets of the Center. This agreement requires interest to be charged on the outstanding balance at the prime rate (prime rate at both June 30, 2014 and 2013 was 3.25%). At June 30, 2014 and 2013, there was no outstanding balance on the line of credit.

Note 7. Contract Services and Other Grants

Contract services and other grants revenue consists of the following for the years ended June 30:

	2014	2013
Pennsylvania Department of Health		
Immunization Grant	$ 468,571	$ 405,164
Community Primary Care Challenge Grant	262,598	100,000
AIDS Activity Coordinating Office of Philadelphia		
HIV Emergency Relief Project Grants	56,333	71,353
Other funders	26,307	7,158
	$ 813,809	$ 583,675

Note 8. Functional Expenses

Expenses were incurred and allocated as follows for the years ended June 30:

	2014	2013
Program services	$ 12,935,693	$ 10,663,415
General and administrative	2,551,475	2,081,882
Fund-raising	71,301	55,033
	$ 15,558,469	$ 12,800,330

General and administrative expense includes provision for bad debt expense of $368,718 and $30,588 for the years ended June 30, 2014 and 2013, respectively.

Note 9. Temporarily Restricted Net Assets

Temporarily restricted net assets held by the Center, and changes thereto, are summarized below, and are available for the following purposes as of June 30, 2014:

	Beginning Balance	Net Asset Additions	Net Assets Released	Ending Balance
Specific purpose	$ 63,347	$ 322,255	$ (119,361)	$ 266,241

Temporarily restricted net assets held by the Center, and changes thereto, are summarized below, and are available for the following purposes as of June 30, 2013:

	Beginning Balance	Net Asset Additions	Net Assets Released	Ending Balance
Specific purpose	$ 152,912	$ 146,428	$ (235,993)	$ 63,347

Note 10. Pension Plan

The Center has a defined contribution pension plan (the Plan) covering all employees who meet certain eligibility requirements. The amount contributed to the Plan consists of a percentage of participants' compensation and a matching contribution, where applicable. Contributions to the Plan amounted to $289,617 and $233,435 for the years ended June 30, 2014 and 2013, respectively.

Note 11. Operating Leases

The Center leases space under a ten-year noncancelable operating lease at 3156 Kensington Avenue, Philadelphia, Pennsylvania through December 2019. Minimum future lease payments under the noncancelable operating lease are as follows:

Year Ending June 30,	
2015	$ 234,871
2016	239,921
2017	244,971
2018	249,378
2019	253,368
Thereafter	108,511
	$ 1,331,020

Aggregate space costs for the years ended June 30, 2014 and 2013 amounted to $265,640 and $259,374, respectively, including utilities and other common charges.

Note 12. Commitments and Contingencies

Contracted services: The Center has contracted with other agencies to perform certain healthcare services and receives Medicaid and Medicare revenue from the Commonwealth of Pennsylvania 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 the amounts in question.

Malpractice risk: The Center is deemed an employee of the federal government for purposes of malpractice protection and is thus covered under the Federal Tort Claims Act (the FTCA). The 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 U.S. Department of Justice, has the responsibility for the defense of the individual and/or grantee for malpractice cases approved for FTCA coverage.

Regulatory investigation: The U.S. Department of Justice, other federal agencies and the Pennsylvania Department of Human Services routinely conduct regulatory investigations and compliance audits of healthcare providers. The Center is subject to these regulatory efforts. Management is currently unaware of any regulatory matters which may have a negative material effect on the Center's financial position or results of operations.

Esperanza Health Center, Inc.

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

Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Grantor's Number	Federal Expenditures
U.S. Department of Health and Human Services			
Direct programs:			
Consolidated Health Centers Cluster	93.224/93.527	N/A	$ 956,055
Affordable Care Act Grants for Capital Development of Health Centers	93.526	N/A	325,516
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918	N/A	661,911
Total expenditures of federal awards			$ 1,943,482

Note 1. Basis of Presentation and Summary of Significant Accounting Policies

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Center and is presented on the accrual basis of accounting. Such expenditures are recognized following 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 reimbursements. Contract identification numbers are presented where applicable.

The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.* Because the schedule presents only a selected portion of the operations of the Center, it is not intended and does not present the financial position, changes in net assets or cash flows of the Center.

Note 2. Subrecipients

The Center provided no federal awards to subrecipients.

McGladrey

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

To the Board of Directors
Esperanza Health Center, Inc.
Philadelphia, Pennsylvania

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements Esperanza 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 asset and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated February 23, 2015.

Internal Control over Financial Reporting
In planning and performing our audit of the financial statements, we considered the Center's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Center's internal control. Accordingly, we do not express an opinion on the effectiveness of the Center's internal control.

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

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

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

Purpose of this Report

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

McGladrey LLP

New York, New York
February 23, 2015

McGladrey

Independent Auditor's Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance in Accordance with OMB Circular A-133

To the Board of Directors
Esperanza Health Center, Inc.
Philadelphia, Pennsylvania

Report on Compliance for Each Major Federal Program
We have audited Esperanza 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 the Center's major federal programs for the year ended June 30, 2014. The Center'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 each of the Center'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 Center's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

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

Report on Internal Control Over Compliance

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. 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.

McGladrey LLP

New York, New York
February 23, 2015

Esperanza 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:	
• Are any material weaknesses identified?	___ yes _√_ no
• Are any significant deficiencies identified not considered to be material weaknesses?	___ yes _√_ no
Is any noncompliance material to financial statements noted?	___ yes _√_ no

Federal Awards

Type of auditor's report issued on compliance for major programs:	Unmodified
Internal control over major programs:	
• Are any material weaknesses identified?	___ yes _√_ no
• Are any significant deficiencies identified not considered to be material weaknesses?	___ yes _√_ no
Are 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:

CFDA Number(s)	Name of Federal Program or Cluster
	U.S. Department of Health and Human Services:
93.224/93.527	Consolidated Health Centers
93.526	Affordable Care Act grants for Capital Development of Health Centers

Dollar threshold used to distinguish between Type A and Type B programs:	$300,000
Is the auditee qualified as a low-risk auditee?	_√_ yes ___ no

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

Section II - Financial Statement Findings

A. Significant Deficiencies or Material Weaknesses in Internal Control

None reported.

B. Compliance Findings

None reported.

Section III - Federal Awards Findings

C. Significant Deficiencies or Material Weaknesses in Internal Control

None reported.

D. Compliance Findings

None reported.

Esperanza Health Center, Inc.

Summary Schedule of Prior Audit Findings
Year Ended June 30, 2014

Audit Finding Reference: **IC 13-01 Books and Records**

Status of prior finding: The Center's management has addressed this matter and has made meaningful progress over this past fiscal year. In October 2013, the Center established a new staff accountant position in its finance department following a period of rapid organizational growth, to support the work of the department and to ensure timeliness and accuracy of its financial records. The addition of this position has had favorable results. Management has also made adjustments to its internal controls in the disposition of the prior control matter and has made progress in the timeliness of its financial books and records. A plan for improving the Center's internal controls was submitted to the Health Resources and Services Administration (HRSA) and was deemed to be acceptable by HRSA.

This year, the Center's finance staff made significant closing entries to close the books prior to the commencement of the annual audit. Reconciliations of general ledger accounts were performed in advance of the audit, and supporting documentation was prepared and available as needed by the auditors.

Management is committed to continued improvement and intends to sustain these recent improvements. The Center will continue to monitor the timeliness and accuracy of its books and records and will take the necessary steps to ensure continued progress in this area. To that end, another new position in the finance department (financial analyst) has been recently established, and the Center's management is currently recruiting for this position.