Morris Heights Health Center, Inc. and Subsidiaries

Consolidated Financial Statements,
Schedule of Expenditures of Federal Awards,
Internal Control and Compliance
(With Supplementary Information)
and Independent Auditor's Reports

June 30, 2014

Morris Heights Health Center, Inc. and Subsidiaries

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Independent Auditor's Report

To the Board of Directors
Morris Heights Health Center, Inc.

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Morris Heights Health Center, Inc. and Subsidiaries (the "Company"), which comprise the consolidated statement of financial position as of June 30, 2014, and the related consolidated statements of activities, changes in net assets and equity, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of June 30, 2014, and the changes in its net assets and equity and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information included in the accompanying statements on pages 25 and 26 is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position and the changes in net assets and equity of the individual organizations, and is not a required part of the consolidated financial statements. The accompanying schedule of expenditures of Federal awards, as required by Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 29, 2014 on our consideration of the Company's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Company's internal control over financial reporting and compliance.

CohnReznick LLP

New York, New York
December 29, 2014

Morris Heights Health Center, Inc. and Subsidiaries

Consolidated Statement of Financial Position
June 30, 2014

Assets

Current assets:	
Cash and cash equivalents	$ 26,166,966
Cash and cash equivalents designated for programs	319,590
Total cash and cash equivalents	26,486,556
Patient services receivable, net	19,742,059
DHHS grants receivable	83,688
Contracts receivable	1,303,848
Due from related party	1,112,109
Investments	2,355,592
Certificates of deposit, at cost	5,569,017
Inventory	118,021
Prepaid expenses and other current assets	564,875
Total current assets	57,335,765
Security deposits	162,532
NMTC escrow reserve	433,994
Investment in Harrison Circle, LP	1,662,798
Developer's fee receivable	2,013,737
Purchase money mortgage receivable - related party	615,000
Purchase money mortgage receivable - interest receivable	72,750
Loan receivable	16,410,160
Property and equipment, net	29,096,464
Total	$ 107,803,200

Liabilities and Net Assets and Equity

Current liabilities:	
Accounts payable and accrued expenses	$ 3,190,935
Accrued compensation	5,108,145
Refundable advance	485,471
Due to related parties	177,939
Total current liabilities	8,962,490
Long-term debt	22,054,000
Total liabilities	31,016,490
Commitments and contingencies	
Unrestricted net assets:	
Undesignated	71,415,534
Board-designated reserve for capital projects	3,780,093
Total unrestricted net assets	75,195,627
Equity	442,914
Total unrestricted net assets and equity	75,638,541
Noncontrolling interest in subsidiary held by MHHC Foundation, Inc.	1,148,169
Total net assets and equity	76,786,710
Total	$ 107,803,200

See Notes to Consolidated Financial Statements.

Morris Heights Health Center, Inc. and Subsidiaries

Consolidated Statement of Activities
Year Ended June 30, 2014

Unrestricted revenue:	
Patient services, net	$ 48,463,521
Provision for bad debt	(1,131,775)
Net patient services revenue net of provision for bad debt	47,331,746
DHHS grants	6,033,262
Contract services	6,592,689
In-kind contributions - donated vaccines	1,587,204
Interest and dividend income	222,897
Other income	388,054
Total unrestricted revenue	62,155,852
Expenses:	
Salaries and benefits	35,870,397
Other than personnel services	13,607,013
Interest expense	267,697
Total expenses	49,745,107
Operating income prior to depreciation and amortization and nonoperating revenue	12,410,745
Depreciation and amortization	1,481,619
Operating income prior to nonoperating revenue	10,929,126
Nonoperating revenue: DHHS grants	554,721
Increase in consolidated net assets	11,483,847
Less increase in consolidated net assets attributable to noncontrolling interest	(11,037)
Increase in consolidated net assets attributable to Morris Heights Health Center, Inc. and Subsidiaries	$ 11,472,810

See Notes to Consolidated Financial Statements.

Morris Heights Health Center, Inc. and Subsidiaries

Consolidated Statement of Changes in Net Assets and Equity
Year Ended June 30, 2014

	Net Assets and Equity		
	Controlling	Noncontrolling	Total
Beginning balance, July 1, 2013	$ 64,165,731	$ 1,137,132	$ 65,302,863
Increase in consolidated net assets	11,472,810	11,037	11,483,847
Ending balance, June 30, 2014	$ 75,638,541	$ 1,148,169	$ 76,786,710

See Notes to Consolidated Financial Statements.

Morris Heights Health Center, Inc. and Subsidiaries

Consolidated Statement of Functional Expenses
Year Ended June 30, 2014

	Program Services	General and Administrative	Total
Salaries and wages	$ 24,506,214	$ 4,746,723	$ 29,252,937
Fringe benefits	5,543,679	1,073,781	6,617,460
Laboratory	425,561	-	425,561
Professional and contractual services	1,721,909	1,037,568	2,759,477
Travel, conferences and meetings	604,742	116,712	721,454
Occupancy	1,218,543	72,589	1,291,132
Security	186,942	13,157	200,099
Telephone	690,185	320,152	1,010,337
Insurance	266,526	1,910	268,436
Consumable supplies	2,577,158	551,335	3,128,493
Repairs and maintenance	834,849	39,450	874,299
Equipment rental	582,838	196,308	779,146
Publications, subscriptions and membership fees	174,777	181,909	356,686
Recruitment costs	17,241	3,222	20,463
Postage and messengers	25,705	52,023	77,728
Interest	240,912	26,785	267,697
Donated vaccines	1,587,204	-	1,587,204
Other	43,327	63,171	106,498
Totals	41,248,312	8,496,795	49,745,107
Depreciation and amortization	1,047,036	434,583	1,481,619
Total functional expenses	$ 42,295,348	$ 8,931,378	$ 51,226,726

See Notes to Consolidated Financial Statements.

Morris Heights Health Center, Inc. and Subsidiaries

Consolidated Statement of Cash Flows
Year Ended June 30, 2014

Cash flows from operating activities:	
Cash received from DHHS grants	$ 6,096,520
Cash received from patient services	34,665,342
Cash received from contract services	28,275,436
Cash received from interest income	222,897
Cash received from other income	262,379
Cash paid to employees	(35,009,137)
Cash paid to vendors	(12,638,225)
Cash paid for interest	62,100
Net cash provided by operating activities	21,937,312
Cash flows from investing activities:	
Purchase of property and equipment	(1,111,266)
Purchase of investments	(1,058,469)
Proceeds from sale of investments	256,327
Purchase of certificates of deposit	(771,841)
Redemption of certificates of deposit	1,225,000
Net cash used in investing activities	(1,460,249)
Cash flows from financing activities:	
Repayments of line of credit	(1,328,863)
Cash paid for security deposits	(20,091)
Receipt of nonoperating DHHS grants	554,721
Net cash used in financing activities	(794,233)
Net increase in cash and cash equivalents	19,682,830
Cash and cash equivalents, beginning of year	6,803,726
Cash and cash equivalents, end of year	$ 26,486,556
Reconciliation of increase in consolidated net assets to net cash provided by operating activities:	
Increase in consolidated net assets	$ 11,483,847
Adjustments to reconcile increase in consolidated net assets to net cash provided by operating activities:	
Depreciation and amortization	1,481,619
Realized and unrealized gain on investments	(125,675)
Provision for bad debts	1,131,775
Nonoperating DHHS grants	(554,721)
Interest paid through NMTC escrow reserve	329,797
Changes in operating assets and liabilities:	
Patient services receivable	(13,798,179)
DHHS grants receivable	63,258
Contracts receivable	21,680,926
Due from related party	(171,775)
Inventory	(12,711)
Prepaid expenses and other current assets	(257,954)
Accounts payable and accrued expenses	(164,778)
Accrued compensation	861,260
Refundable advance	1,821
Due to related parties	(11,198)
Net cash provided by operating activities	$ 21,937,312
Supplemental disclosure of noncash investing activity:	
Capital acquisitions included in accounts payable and accrued expenses	$ 233,202

See Notes to Consolidated Financial Statements.

Note 1 - Organization and summary of significant accounting policies

Morris Heights Health Center, Inc. (the "Center") received its incorporation documents under the Not-For-Profit Corporation Law of New York State in November 1984. The Center is exempt from income tax under Section 501(c)(3) of the Internal Revenue Code (the "Code") and is organized under Article 28 of the New York Public Health Law.

The Center operates an ambulatory healthcare facility that provides comprehensive healthcare services to the residents of the southwest Bronx, New York. The Center is funded primarily through government grants, program services contracts and Health Maintenance Organization ("HMO") contracts.

MHHC Developers, LLC ("Developers") is a limited liability company formed under Section 203 of the Limited Liability Company Law of the State of New York on October 8, 2009. The members of Developers are the Center, whose membership interest equals 90%, and the MHHC Foundation, Inc. (the "Foundation") with a 10% membership interest. The Center is the managing member of Developers.

Morris Heights Senior Housing Development Fund Company, Inc. ("HDFC") was formed under Section 402 of the Not-For-Profit Corporation Law and Article XI of the Private Housing Finance Law on October 25, 2005. HDFC was organized exclusively for the purpose of providing housing accommodations for persons and families of low income. The Center is the sole member of HDFC. HDFC is exempt from income tax under Section 501(c)(3) of the Code.

Harrison Circle Development Corp. ("HCDC") is a C corporation of which HDFC is the sole shareholder. HCDC is the General Partner of Harrison Circle, LP (the "Partnership"), a limited partnership under the Revised Uniform Limited Partnership Act of the State of New York and was formed on July 16, 2006. Under the terms of the Limited Partnership Agreement, HCDC has a .01% ownership interest and the Limited Partner is EHP XV Investor, L.P., which has a 99.99% ownership interest.

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.

Basis of presentation

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

The consolidated financial statements include the accounts of the Center, Developers, HDFC and HCDC (collectively, the "Company"). All significant intercompany transactions and account balances have been eliminated in consolidation.

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

Classification of net assets
Unrestricted net assets are not externally restricted for identified purposes by donors or grantors. Unrestricted net assets include resources that the governing board may use for any designated purpose and resources which include funds whose use is limited by agreement between the Company and an outside party other than a donor or grantor.

From time to time, the Board designates unrestricted net assets for special projects.

Temporarily restricted net assets are those whose use by the Company has been limited by donors to a specific purpose. When donor restrictions expire, that is, when a time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are recorded as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the financial statements.

Permanently restricted net assets are assets which are not expendable. Only income and appreciation from the investment of these assets are expendable.

There are no temporarily or permanently restricted net assets at June 30, 2014.

Cash and cash equivalents
The Company maintains its cash and cash equivalents in bank deposit accounts which, at times, may exceed Federally insured limits. The Company has not experienced any losses in such accounts. At June 30, 2014, the Company's cash and cash equivalents balance exceeds Federally-insured limits by approximately $31,000,000. Cash and cash equivalents, whose use is not limited, include highly liquid investments with maturities of three months or less when acquired, except for cash equivalents held in the custody of the investment safekeeping agent, which are included in investments.

Restricted cash and cash equivalents designated for programs
The Company has restricted cash and cash equivalents whose use has been limited by the Board of Directors to support the goals and activities of the Company.

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

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

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

Investments
Investments are recorded in the accompanying consolidated financial statements at fair value, which have been determined using quoted market prices. Net realized and unrealized gains and losses are reflected in revenue in the consolidated statement of activities.

Inventory
Inventory, consisting of supplies and drugs, is stated at the lower of cost (first-in, first-out basis) or market.

Property and equipment
The Company records property and equipment at cost net of accumulated depreciation and amortization. Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets, which range from 3 to 40 years. Leasehold improvements are amortized on a straight-line basis over the estimated useful life of the improvements or the term of the lease, whichever is less. The Company capitalizes all purchases of property and equipment in excess of $1,500.

Construction-in-progress is recorded at cost. The Center capitalizes construction, insurance, interest and other costs during the period of construction. Depreciation is recorded when construction has been substantially complete and the assets are placed in service.

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

Impairment of long-lived assets
The Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In performing a review for impairment, the Company compares the carrying value of the assets with their estimated future undiscounted cash flows. If it is determined that impairment has occurred, the loss would be recognized during that period. The impairment loss is calculated as the difference between the asset carrying values giving consideration to recent operating performance and pricing trends. The Company does not believe that any material impairment currently exists related to its long-lived assets.

Meaningful use incentives
The American Recovery and Reinvestment Act of 2009 ("ARRA") amended the Social Security Act to establish one-time incentive payments under the Medicare and Medicaid programs for certain professionals that: (1) meaningfully use certified electronic health records ("EHR") technology, (2) use the certified EHR technology for electronic exchange of health information to improve quality of healthcare and (3) use the certified EHR technology to submit clinical and quality measures. These provisions of ARRA, together with certain of its other provisions, are referred to as the Health Information Technology for Clinical and Economic Health ("HITECH") Act. The criteria for meaningful use incentives will be staged in three steps over the course of six years and be paid out based on a transitional schedule. For the year ended June 30, 2014, the Center earned $110,500 from the Medicaid incentive program and is recorded in the consolidated statement of activities under other income.

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

The Center provides care to certain patients under Medicaid and Medicare payment arrangements. Laws and regulations governing the Medicaid and Medicare programs are complex and subject to interpretation. Compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action. Self-pay revenue is recorded at published charges with charitable allowances based on a sliding fee scale deducted to arrive at net self-pay revenue before provision for bad debts.

Charity care and community benefit

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

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

Based on the cost of patient services, charity care approximated $2,700,000 and community benefit approximated $9,800,000 for the year ended June 30, 2014.

Grants and contracts

Revenue from government grants and contracts designated for use in specified activities is recognized in the period when expenditures have been incurred in compliance with the grantor's requirements. Grant and contract awards for the acquisition of long-lived assets are reported as unrestricted nonoperating revenue, in the absence of donor stipulations to the contrary, during the fiscal year in which the assets are acquired. Cash received in excess of revenue recognized is recorded as refundable advances. At June 30, 2014, the Company has received conditional grants and contracts from governmental entities in the aggregate amount of $11,782,680 that have not been recorded in these consolidated financial statements as they have not been earned. These grants and contracts require the Company to provide certain healthcare services during specified periods. If such services are not provided during the specified periods, the governmental entities are not obligated to expend the funds allotted under the grants and contracts.

Contributions

Contributions are recorded as either temporarily or permanently restricted revenue if they are received with donor stipulations that limit the use of the donated asset. Contributions received with no donor stipulations are recorded as unrestricted revenue. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and are reported in the consolidated statement of activities as net assets released from restriction. Donor-restricted contributions whose restrictions expire during the same fiscal year are recognized as unrestricted revenue. For the year ended June 30, 2014, there were no restricted contributions.

In-kind contributions
The Company records donated items at fair value. During 2014, the Company received $1,587,204 of vaccines which are recorded in the consolidated statement of activities as both revenue and expense.

Interest earned on Federal funds
Interest earned on Federal funds is recorded as a payable to the Public Health Services ("PHS") in compliance with U.S. Office of Management and Budget Circular A-110.

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

Performance indicator
The consolidated statement of activities includes operating income prior to nonoperating revenue as the performance indicator. Changes in net assets which are excluded from the performance indicator include DHHS grants for capital additions.

Tax status
The Center and HDFC were incorporated as not-for-profit corporations under the laws of the State of New York and are exempt from income taxes under Section 501(c)(3) of the Code. Therefore, there is no provision for income taxes.

Developers files annual Federal, state and local information returns and, accordingly, pays no income tax. Income and deductions are passed to the members for tax purposes.

HCDC is a C Corporation subject to Federal, state and local income taxes.

The Company has no unrecognized tax benefits at June 30, 2014. The Company's Federal and state income tax returns prior to fiscal year 2011 are closed and management continually evaluates expiring statutes of limitations, audits, proposed settlements, changes in tax law and new authoritative rulings.

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

Subsequent events
The Company has evaluated subsequent events through December 29, 2014, which is the date the consolidated financial statements were available to be issued.

Note 2 - Patient services receivable, net

Patient services receivable, net, consist of the following:

Medicaid and managed care plans	$ 3,687,323
Medicare	102,179
Other third-party payors	184,049
Self-pay	1,299,763
Total	5,273,314
Less allowance for doubtful accounts	1,282,207
Total	3,991,107
New York State Medicaid and Medicaid managed care wraparound retroactive rate adjustments	14,533,182
New York State uncompensated care	1,217,770
Total	$19,742,059

Patient services receivable are reduced by an allowance for doubtful accounts. In evaluating the collectability of patient services receivable, the Center analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts. For receivables associated with services provided to patients who have third-party coverage, the Center analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid, or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely). For receivables associated with self-pay patients (which include both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Center records a provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates or the discounted rates provided by the Center's policy and the amounts actually collected after all reasonable collection efforts have been exhausted is charged against the allowance for doubtful accounts.

The Center's allowance for doubtful accounts was 6% of patient services receivable at June 30, 2014. The Center wrote off $498,168 of patient services receivable during the year ended June 30, 2014. The Center has not changed its charity care or uninsured discount policies during fiscal year 2014.

Note 3 - Contracts receivable

Contracts receivable consist of the following:

New York State Department of Health:	
School-Based Health Center Program	$ 330,079
Family Planning Program	224,065
Facilitated Enrollment Program	128,345
Vital Access Program	25,303
Doctors across America	29,766
New York State Office of Children and Family Services:	
Healthy Families New York	143,498
MIECHV	48,282
New York City Department of Health and Mental Hygiene:	
School Health Programs	77,449
Infant Mortality	43,075
Public Health Solutions:	45,650
Primary Care Development Corporation	70,000
Infant Mortality	138,336
Total	$1,303,848

Note 4 - Investments and fair value measurements

A summary of investments for the Center as of June 30, 2014 is as follows:

	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Mutual funds	$2,221,244	$136,235	$(1,887)	$2,355,592

Net unrealized gains on investments for the year ended June 30, 2014 amounted to $134,348 which is included in other income in the consolidated statement of activities.

Interest and dividend income earned on investments for the year ended June 30, 2014 was $58,361.

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

Level 1: Quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets. The fair value hierarchy gives the highest priority to Level 1 inputs.

Level 2: Observable inputs other than Level 1 prices such as quoted prices for similar assets; quoted prices in inactive markets; or model-derived valuations in which all significant inputs are observable or can be derived principally from or corroborated with observable market data.

Level 3: Unobservable inputs are used when little or no market data is available. The fair value hierarchy gives the lowest priority to Level 3 inputs.

In determining fair value, the Center utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible as well as considers counterparty credit risk in its assessment of fair value. The following is a description of the valuation methodology used for investments at fair value. There have been no changes in the methodologies used during the year ended June 30, 2014.

The following table sets forth by level, within the fair value hierarchy, the Center's investments as of June 30, 2014:

	Level 1	Level 2	Level 3	Total
Mutual Funds:				
World allocation	$303,568		$ -	$ 303,568
Conservative allocation	173,825			173,825
Large blend	84,863			84,863
Nontraditional blend	776,044			776,044
Moderate allocation	77,966			77,966
Energy limited partnership	175,893			175,893
Multisector bond	91,761			91,761
Short-term bond	276,384			276,384
World stock	76,551			76,551
Long/short equity	107,818			107,818
Diversified emerging markets	65,968			65,968
Tactical allocation	142,171			142,171
Sweep balance		$ 2,780		2,780
Totals	$2,352,812	$ 2,780	$ -	$2,355,592

Investments in mutual funds are valued using market prices on active markets and valuations are obtained from real-time quotes for transactions in active exchange markets involving identical assets.

Sweep balance is the amount of cash held in the cash account where cash invested to purchase new investments are temporarily held until spent. It is valued at cost, which approximates fair value.
The preceding methods may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Center believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The Center's policy is to recognize transfers into and transfers out of a level as of the actual date of the event or change in circumstance that caused the transfer. There were no transfers among the three levels in 2014.

Note 5 - Loan receivable

Developers (the "Lender") and Chase NMTC MHHC Investment Fund, LLC (the "Borrower" or "Investment Fund") entered into a loan agreement and promissory note on December 15, 2009 for the amount of $16,410,160. The loan receivable balance at June 30, 2014 is $16,410,160 with interest due annually at 0.695% and a maturity date of December 2039. Principal payments in an amount equal to Borrower's net cash flow through the end of the immediately preceding quarter, shall commence on March 10, 2017 (Note 14).

Note 6 - Property and equipment, net

Property and equipment, net, consists of the following:

Land and land improvements	$ 1,018,859
Building and improvements	33,973,157
Leasehold improvements	2,493,907
Equipment and furniture	11,401,551
Total	48,887,474
Less accumulated depreciation and amortization	20,106,287
	28,781,187
Construction-in-progress	315,277
Total	$29,096,464

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

Note 7 - Line of credit

The Center has a $2,000,000 revolving line of credit secured by the Center's accounts receivable which is due to expire on December 31, 2014. Management expects to renew the line of credit upon expiration. The line of credit bears a variable interest rate which is calculated at 2.5% over one month LIBOR resulting in an interest rate of 3.25% as of June 30, 2014. There was no outstanding balance on the line of credit as of June 30, 2014.

Note 8 - Long-term debt

The Center entered into a loan agreement in the aggregate amount of $22,054,000 (Note 14). The loan is evidenced by four promissory notes, which contain the following terms:

Promissory Note A - The Center entered into a promissory note in the amount of $7,193,500 with a maturity date of December 15, 2039 and interest at 0.5% per annum. During the period commencing on December 15, 2016 and ending on the maturity date, accrued and unpaid interest and principal shall be payable in successive quarterly installments on the first day of each March, June, September and December in the amount of $82,788.

Promissory Note B - The Center entered into a promissory note in the amount of $2,806,500 with a maturity date of December 15, 2039 and interest at 0.5% per annum. During the period commencing on December 15, 2016 and ending on the maturity date, accrued and unpaid interest and principal shall be payable in successive quarterly installments on the first day of each March, June, September and December in the amount of $32,299.

Promissory Note C - The Center entered into a promissory note in the amount of $9,216,660 with a maturity date of December 15, 2039 and interest at 1.30715% per annum. During the period commencing on December 15, 2016 and ending on the maturity date, accrued and unpaid interest and principal shall be payable in successive quarterly installments on the first day of each March, June, September and December in the amount of $116,048.

Promissory Note D - The Center entered into a promissory note in the amount of $2,837,340 with a maturity date of December 15, 2039 and interest at 1.30715% per annum. During the period commencing on December 15, 2016 and ending on the maturity date, accrued and unpaid interest and principal shall be payable in successive quarterly installments on the first day of each March, June, September and December in the amount of $35,725.

The Center is required to comply with certain covenants under its long-term debt.

Note 9 - DHHS grants

For the year ended June 30, 2014, the Center recognized grant revenue from the DHHS as follows:

Grant Number	Grant Period	Total Grant	Operating Grant	Nonoperating Grant*	Total Revenue Recognized
6 H80CS00472-12-10	6/1/13 - 5/31/14	$4,378,569	$4,060,235		$4,060,235
3 H80CS00472-13-04	6/1/2014 - 5/31/15	5,246,778	496,203		496,203
C12CS25446-01-02	12/01/2012 - 11/30/2014	500,000		$383,166	383,166
5 TPIAH000074-05-00	9/1/2014 - 8/31/15	791,715	768,243		768,243
5 H76HA0061	7/01/2013 - 4/30/2014	590,484			
2 H76HA00061-23-00	5/01/2014 - 4/30/2015	708,581	708,581		708,581
6 C8BCS23923-01-05	05/1/2012 - 4/30/2014	500,000		10,200	10,200
1C12CS21915-01-06	7/01/11 - 6/30/2014	499,880		161,355	161,355
			$6,033,262	$554,721	$6,587,983

* Represents nonoperating grant for capital expenditures.

Note 10 - Patient services revenue, net

For the year ended June 30, 2014, the Center recognized patient services revenue, net of contractual allowances and discounts (but before the provision for bad debts) for the following major payors:

	Net Revenue
Medicaid and Medicaid managed care plans	$20,789,765
Medicare	515,611
Other third-party	1,449,971
Self-pay	333,570
Medicaid retroactive rate adjustments from prior years	2,332,919
New York State uncompensated care	1,900,196
New York State Medicaid managed care wraparound	12,971,920
New York State Medicaid managed care wraparound retroactive rate adjustments from prior years	7,134,195
Medicaid managed care incentives	1,035,374
Total	$48,463,521

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

Note 11 - Contract services

For the year ended June 30, 2014, contract services revenue consists of the following:

New York State Department of Health:	
School-Based Health Center Program	$1,019,460
Family Planning Program	741,714
Facilitated Enrollment Program	658,513
Women, Infants and Children (WIC)	1,999,259
Vital Access Program	25,303
Community Health Worker	62,294
New York State Office of Children and Family Services:	
Healthy Families New York	613,147
MIECHV	219,667
New York State Department of Labor:	
New York Youth Works Training and Placement Program	67,000
New York City Department of Health and Mental Hygiene:	
School Health Programs	421,689
Infant Mortality	75,125
Public Health Solutions	367,814
Other	321,704
Total	$6,592,689

Note 12 - Pension plan

The Center maintains a profit sharing plan covering substantially all employees meeting certain eligibility requirements. The amount contributed to the plan is at the Center's discretion. Pension expense amounted to $1,143,530 for the year ended June 30, 2014; the Center had $322,956 accounts payable to the profit sharing plan as of June 30, 2014.

The Center also established a 457(b) supplemental executive employee retirement plan ("SERP") for a select member of management. The plan is an unfunded deferred compensation plan under which the participant becomes vested upon reaching normal retirement date. There was no contribution to the SERP for the year ended June 30, 2014.

Note 13 - Commitments and contingencies

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

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

The general contractor for the Partnership Project (Note 14) filed for bankruptcy, at which time approximately $1,094,144 of contract costs were unpaid by the Center and remain unpaid at June 30, 2014. The amount owed is included in accounts payable and accrued expenses in the consolidated statement of financial position. Subcontractors, who were not paid by the contractor, have filed mechanic's liens on the property. On July 26, 2012, the Center entered into a partial settlement agreement with the general contractor; the agreement stipulated the manner of payment of the amount owed by the Center to the general contractor.

The Company is involved in other claims and legal actions in the ordinary course of business. Management is of the opinion that the ultimate outcome of these matters would not have a material adverse impact on the Company's consolidated financial position, results of operations or cash flows.

The Center has four facilities under noncancelable operating leases with terms from five to ten years. Rent expense for the year ended June 30, 2014 was $889,811. In addition, the Center leases various equipment under five-year lease terms. The leases require future minimum payments as follows:

Year Ending June 30,	Amount
2015	$1,419,882
2016	1,342,300
2017	926,625
2018	451,402
2019	249,863
Thereafter	821,133
Total	$5,211,205

Note 14 - Transactions with subsidiary, affiliates and related parties

MHHC Foundation, Inc.

The Center has a month-to-month leasing arrangement for two vans and two parking lots with the Foundation, an affiliate related through a common board member. As of June 30, 2014, the amount owed by the Center to the Foundation for rent expense under this arrangement was $176,513. As of June 30, 2014, the Foundation owed the Center $7,992 for a payment to a certain vendor made by the Center on behalf of the Foundation. Additionally, for the year ended June 30, 2014, the Foundation donated $20,000 to the Center to finance part of the expenses of the Teenage Pregnancy program. The

Foundation has a noncontrolling interest in Developers of 10% in the amount of $1,148,169 as of June 30, 2014.

Investment in Harrison Circle, LP:
HCDC is the general partner of the Partnership and has a .01% ownership interest. The required capital contribution for HCDC is $2,606,300. The balance remaining payable as of June 30, 2014 is $943,502 and the net investment in the Partnership is $1,662,798. As of June 30, 2014, HCDC owed the Partnership $9,418 for certain New York State taxes paid by the Partnership on behalf of HCDC.

Harrison Circle Project:
<u>A-Low Income Housing Tax Credit</u>
The Center, in conjunction with the Mount Hope Housing Company, Inc. ("Mount Hope"), is the sponsor of a low-income housing project as required by the U.S. Department of Housing and Urban Development's Section 202 Program ("HUD"). In a January 30, 2008 agreement, the Center received a capital advance of $7,800,000 from HUD and has loaned the capital advance fund to the Partnership as evidenced by the promissory note from the Partnership to the Center and secured by a mortgage from HDFC and the Partnership. The Center has assigned its interest in the mortgage and note to the United States of America acting by and through the Secretary of Housing and Urban Development. Under the assignment, also dated January 30, 2008, HUD agrees to look solely to the mortgaged property and its rents, issues and profits to satisfy any indebtedness under the capital advance agreement.

The Center and HCDC have entered into a Guaranty Agreement and an Unconditional Construction Completion Guaranty Agreement as well as a Development Service Agreement with the Partnership. The Center and HCDC have guaranteed the Partnership to complete the construction of the project and to make payments necessary to complete the work and discharge all liens. All amounts due and payable would be on demand by the Partnership. There were no development fees earned for the year ended June 30, 2014. As of June 30, 2014, receivables outstanding for development fees earned in the prior years amounted to $2,013,737.

As sponsor to the Partnership, the Center has made various advances to the Partnership for operating costs. As of June 30, 2014, the Partnership owes the Center $1,112,109 in connection with advances made for operating costs.

Sale of Condominium Unit Lot 1001:
On January 30, 2008, the Center transferred property known as Section 11, Block 3206, Lot 1001 to HDFC as nominee for the Partnership. The unit, valued at $1,728,000 was then transferred to HCDC, the general partner of the Partnership. HCDC then made a capital contribution in the form of the unit to the Partnership. The property is subject to a purchase money mortgage by the Partnership to the Center for $615,000 at an interest rate of 4.72% per annum and matures on January 1, 2050, and a purchase money mortgage by HCDC to the Center for $1,113,000. The $1,113,000 has been eliminated on the consolidated

statement of financial position. In connection with the purchase money mortgage, the Center is due $72,750 for interest earned.

The purchase money mortgage is subordinate to HUD's capital advance/building loan agreements.

<u>B-New Markets Tax Credit</u>
In order to facilitate the construction and development of medical and commercial condominium units, on December 15, 2009, the Center closed a New Markets Tax Credit transaction ("NMTC"). A NMTC program permits taxpayers, who have made qualified equity investments in designated community development entities ("CDEs"), to receive a credit against their Federal income taxes.

The credit provided to the investors totals 39% of the cost of the investment and is claimed over a seven-year credit allowance period. This NMTC transaction utilizes four Qualified Low Income Community Investment ("QLICI") loans totaling $22,054,000 (Note 8) to the Center to be used to support its portion of business, the medical and commercial portions of the Partnership. The loan funds are made available through the formation of an investment fund consisting of the Chase NMTC MHHC Investment Fund, LLC that invests in the two Community Development Entities, MHHC/NCF Sub-CDE, LLC and ESIC New Marker Partners XL Limited Partnership. The CDEs in turn, fund the direct loans to the Center. Interest on these loans range from .5% to 1.30715% per annum paid quarterly over a 30-year period. This structure will stay in effect for a period of 7 years, until December 15, 2016, when the new market tax credit period expires. Built within the agreements are put and call options for the Center to acquire 100% of the investment fund at a purchase price in an amount equal to the sum of $1,000, any transfer taxes or other closing costs paid or payable by the investment fund attributable to the exercise of the put option and/or sale of the investment funds' interest and any amounts then due and owing from the Center to the investment fund.

The Center established a New Market Tax Credit Reserve account to be used solely for the purpose of paying interest due and payable pursuant to the notes listed in Note 8. The NMTC escrow reserve balance was $433,994 as of June 30, 2014.

To accomplish the above, Developers acts as the Leverage Lender in the NMTC transaction. In connection with the NMTC transaction, in its capacity as the Leverage Lender, Developers made a loan to Chase NMTC MHHC Investment Fund, LLC in the principal amount of $16,410,160 (Note 5). This loan to Chase NMTC MHHC Investment Fund, LLC, in addition to JPMorgan Chase's equity investment of $7,192,000 in the fund, forms the basis of the NMTC transaction model referred to above.

Morris Heights Health Center, Inc. and Subsidiaries

Consolidating Statement of Financial Position
June 30, 2014

	Morris Heights Health Center, Inc.	MHHC Developers, LLC	Morris Heights Senior Housing Development Fund Company, Inc.	Harrison Circle Development Corporation	Eliminations	Total
Assets						
Current assets:						
Cash and cash equivalents	$ 25,650,059	$ 506,083	$ 10,824	$ -	$ -	$ 26,166,966
Cash and cash equivalents designated for programs	319,590	-	-	-	-	319,590
Total cash and cash equivalents	25,969,649	506,083	10,824	-	-	26,486,556
Patient services receivable, net	19,742,059	-	-	-	-	19,742,059
DHHS grants receivable	83,688	-	-	-	-	83,688
Contracts receivable	1,303,848	-	-	-	-	1,303,848
Meaningful use incentives receivable	-	-	-	-	-	-
Due from related party	1,112,109	-	-	-	-	1,112,109
Due from Harrison Circle	-	-	-	-	-	-
Investments	2,355,592	-	-	-	-	2,355,592
Certificate of deposits, at cost	5,569,017	-	-	-	-	5,569,017
Inventory	118,021	-	-	-	-	118,021
Prepaid expenses and other current assets	564,865	-	-	10	-	564,875
Total current assets	56,818,848	506,083	10,824	10	-	57,335,765
Security deposits	162,532	-	-	-	-	162,532
NMTC Escrow reserve	433,994	-	-	-	-	433,994
Investment in MHHC Developers, Inc.	15,325,160	-	-	-	(15,325,160)	
Investment in Harrison Circle, LP		-	-	1,662,798	-	1,662,798
Developer's fee receivable	2,013,737	-	-	-	-	2,013,737
Purchase money mortgage receivable - related party	1,728,000	-	-	-	(1,113,000)	615,000
Purchase money mortgage receivable - interest receivable	72,750	-	-	-	-	72,750
Loan receivable		16,410,160	-	-	-	16,410,160
Property and equipment, net	29,096,464	-	-	-	-	29,096,464
Totals	$ 105,651,485	$ 16,916,243	$ 10,824	$ 1,662,808	$ (16,438,160)	$ 107,803,200
Liabilities and Net Assets and Equity						
Current liabilities:						
Purchase money mortgage payable - related party	$ -	$ -	$ -	$ 1,113,000	$ (1,113,000)	$ -
Accounts payable and accrued expenses	3,190,935	-	-	-	-	3,190,935
Accrued compensation	5,108,145	-	-	-	-	5,108,145
Refundable advance	485,471	-	-	-	-	485,471
Due to related party	168,521	-	-	9,418	-	177,939
Total current liabilities	8,953,072	-	-	1,122,418	(1,113,000)	8,962,490
Long-term liabilities - long-term debt	22,054,000	-	-	-	-	22,054,000
Total liabilities	31,007,072	-	-	1,122,418	(1,113,000)	31,016,490
Net assets:						
Unrestricted:						
Undesignated	70,864,320	-	10,824	-	540,390	71,415,534
Board-designated reserve for capital projects	3,780,093	-	-	-	-	3,780,093
Common stock	-	-	-	10	(10)	-
Additional-paid-in capital	-	-	-	549,920	(549,920)	-
Accumulated deficit	-	-	-	(9,540)	9,540	-
	74,644,413	-	10,824	540,390	-	75,195,627
Equity	-	15,768,074	-	-	(15,325,160)	442,914
Total unrestricted net assets and equity	74,644,413	15,768,074	10,824	540,390	(15,325,160)	75,638,541
Noncontrolling interest in subsidiary held by MHHC Foundation, Inc.	-	1,148,169	-	-	-	1,148,169
Total net assets and equity	74,644,413	16,916,243	10,824	540,390	(15,325,160)	76,786,710
Totals	$ 105,651,485	$ 16,916,243	$ 10,824	$ 1,662,808	$ (16,438,160)	$ 107,803,200

See Independent Auditor's Report.

Morris Heights Health Center, Inc. and Subsidiaries

Consolidating Statement of Activities and Changes in Net Assets and Equity
Year Ended June 30, 2014

	Morris Heights Health Center, Inc.	MHHC Developers, LLC	Morris Heights Senior Housing Development Fund Company, Inc.	Harrison Circle Development Corporation	Eliminations	Total
Unrestricted revenue:						
Patient services, net	$ 48,463,521	$ -	$ -	$ -	$ -	$ 48,463,521
Provision for bad debt	(1,131,775)	-	-	-	-	(1,131,775)
Net patient services revenue net of provision for bad debt						47,331,746
DHHS grants	6,033,262	-	-	-	-	6,033,262
Contract services	6,592,689	-	-	-	-	6,592,689
In-kind contributions - donated vaccines	1,587,204	-	-	-	-	1,587,204
Interest and dividend income	108,396	114,489	12			222,897
Other income	388,054	-	-	-	-	388,054
Total unrestricted revenue	62,041,351	114,489	12	-	-	62,155,852
Expenses:						
Salaries and benefits	35,870,397	-	-	-	-	35,870,397
Other than personnel services	13,607,013	-	-	-	-	13,607,013
Interest expense	263,579	4,118	-	-	-	267,697
Total expenses	49,740,989	4,118	-	-	-	49,745,107
Operating income prior to depreciation and amortization and nonoperating revenue	12,300,362	110,371	12	-	-	12,410,745
Depreciation and amortization	1,481,619	-	-	-	-	1,481,619
Operating income prior to nonoperating revenue	10,818,743	110,371	12	-	-	10,929,126
Nonoperating revenue:		-	-	-	-	
DHHS grants	554,721	-	-	-	-	554,721
Increase in consolidated net assets	11,373,464	110,371	12	-	-	11,483,847
Less increase in consolidated net assets attributable to noncontrolling interest	-	(11,037)	-	-	-	(11,037)
Increase in consolidated net assets attributable to Morris Heights Health Center, Inc. and Subsidiaries	$ 11,373,464	$ 99,334	$ 12	$ -	$ -	$ 11,472,810
Net assets and equity:						
Beginning of year	$ 63,270,949	$ 343,580	$ 10,812	$ 540,390	$ -	$ 64,165,731
Increase in consolidated net assets attributable to Morris Heights Health Center, Inc. and Subsidiaries	11,373,464	99,334	12	-	-	11,472,810
Total Morris Heights Health Center, Inc. and Subsidiaries	74,644,413	442,914	10,824	540,390	-	75,638,541
Partner's capital from MHHC, Inc.		15,325,160	-	-	(15,325,160)	
Noncontrolling interest in subsidiary held by MHHC Foundation, Inc.	-	1,148,169	-	-	-	1,148,169
Net assets and equity, end of year	$ 74,644,413	$ 16,916,243	$ 10,824	$ 540,390	$ (15,325,160)	$ 76,786,710

See Independent Auditor's Report.

Morris Heights Health Center, Inc. and Subsidiaries

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	Total Expenditures
U.S. Department of Health and Human Services:			
Direct programs:			
Health Centers Cluster:			
Consolidated Health Centers	93.224	N/A	$ 1,562,789
Affordable Care Act (ACA) Grants for New and Expanded Services under the Health Center Program	93.527	N/A	2,993,649
Sub-total Health Centers Cluster			4,556,438
Teenage Pregnancy Prevention Program	93.297	N/A	768,243
Passed through Fund for Public Health of New York:			
Teenage Pregnancy Prevention Program	93.297	5430	19,336
			787,579
Direct programs:			
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918	N/A	708,581
Affordable Care Act (ACA) Grants for Capital Development in Health Centers	93.526	N/A	383,166
Affordable Care Act (ACA) Grants for School-Based Health Center Capital Expenditures	93.501	N/A	171,555
Passed through New York State Department of Health:			
Medical Assistance Program	93.778	C-027813/C-021365/C-028881	145,668
Children's Health Insurance Program	93.767	C-027813/C-028881	52,645
Passed through Community Services Society:			
Children's Health Insurance Program	93.767	Not Available	11,786
			64,431
Passed through New York State Department of Health:			
Maternal and Child Health Services Block Grant to the States	93.994	C-027030 / C-022463	165,245
Family Planning Services	93.217	C-027030	147,156
State Planning and Establishment Grants for the Affordable Care Act (ACA)'s Exchanges	93.525	C-028881	326,279
Passed through New York City Department of Health and Mental Hygiene:			
Immunization Cooperative Agreements	93.268	N/A	1,587,204
Passed through New York State Office of Children and Family Services:			
Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program	93.505	C-026445	219,667
Passed through Family Health International:			
Allergy, Immunology and Transplantation Research	93.855	936/0080.0107	67,000
Passed through Public Health Solutions:			
HIV Emergency Relief Project Grants	93.914	Not Available	367,814
Passed through Clinical Directors Network, Inc.:			
Transitional Living for Homeless Youth	93.550	Not Available	500
Mental Health Research Grants	93.242	Not Available	390
Total U.S. Department of Health and Human Services			9,698,673
U.S. Department of Agriculture:			
Passed through New York State Department of Health:			
Special Supplemental Nutrition Program for Women, Infants and Children	10.557	C-025765	9,145,229
Total U.S. Department of Agriculture			9,145,229
Total Federal awards			$ 18,843,902

See Notes to Schedule of Expenditures of Federal Awards.

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

Note 1 - General information

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

Note 2 - Basis of accounting

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

Note 3 - Relationship to basic consolidated financial statements

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

Note 4 - Subrecipients

Of the Federal expenditures presented in this Schedule, the Center had Federal expenditures amounting to $8,171 passed through to sub-recipients under CFDA numbers 93.778 and 93.767 for the year ended June 30, 2014.

Note 5 - Nonmonetary assistance

Nonmonetary assistance is reported in the Schedule at the fair value of the women, infants and children ("WIC") checks and vaccinations received. The total Federal share of the food instruments distributed by the Center amounted to $7,439,661, and is included in the Schedule. The total Federal share of the vaccinations distributed by the Center amounted to $1,587,204. These amounts are included in the Schedule.

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

To the Board of Directors
Morris Heights Health Center, Inc.

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the consolidated financial statements of Morris Heights Health Center, Inc. and Subsidiaries (the "Company") (a nonprofit organization), which comprise the consolidated statement of financial position as of June 30, 2014, and the related consolidated statements of activities and changes in net assets and equity, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated December 29, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Company'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 consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we do not express an opinion on the effectiveness of the Company'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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as Item 2014-001 that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Company's consolidated 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 an instance of noncompliance or other matters that is required to be reported under Government Auditing Standards and which is described in the accompanying schedule of findings and questioned costs as Item 2014-001.

Management's Response to Finding

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

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 Company'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 Company's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

CohnReznick LLP

New York, New York
December 29, 2014

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

To the Board of Directors
Morris Heights Health Center, Inc.

Report on Compliance for Each Major Federal Program

We have audited Morris Heights Health Center, Inc.'s (the "Center's") compliance with the types of compliance requirements described in the 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 programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Basis for Qualified Opinion on the Health Centers Cluster: Consolidated Health Centers (CFDA 93.224) and Affordable Care Act (ACA) Grants for New and Expanded Services under the Health Center Program (CFDA 93.527)

As described in the accompanying schedule of findings and questioned costs, the Center did not comply with a requirement regarding the Health Centers Cluster: Consolidated Health Centers (CFDA 93.224) and Affordable Care Act (ACA) Grants for New and Expanded Services under the Health Center Program (CFDA 93.527) as described in Item 2014-001 for program income. Compliance with such requirement is necessary, in our opinion, for the Center to comply with the requirements applicable to that program.

Qualified Opinion on Health Centers Cluster: Consolidated Health Centers (CFDA 93.224) and Affordable Care Act (ACA) Grants for New and Expanded Services under the Health Center Program (CFDA 93.527)

In our opinion, except for the noncompliance described in the "Basis for Qualified Opinion" paragraph, 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 the Health Centers Cluster: Consolidated Health Centers (CFDA 93.224) and Affordable Care Act (ACA) Grants for New and Expanded Services under the Health Center Program (CFDA 93.527) for the year ended June 30, 2014.

Unmodified Opinion on Each of the Other Major Federal Programs

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 other major Federal programs identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs for the year ended June 30, 2014.

Other Matter

The results of our auditing procedures disclosed another instance of noncompliance, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as Item 2004-002. Our opinion on each major Federal program is not modified with respect to this matter.

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

Report on Internal Control Over Compliance

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a certain deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as Item 2014-002 that we consider to be a significant deficiency.

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

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

CohnReznick LLP

New York, New York
December 29, 2014

Morris Heights Health Center, Inc. and Subsidiaries

Schedule of Findings and Questioned Costs
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 _X_ no
• Significant deficiency(ies) identified?	_X_ yes ___ none reported
Noncompliance material to financial statements noted?	____ yes _X_ no

Federal Awards:

Internal control over major programs:	
• Material weakness(es) identified?	____ yes _X_ no
• Significant deficiency(ies) identified?	_X_ yes ___ none reported
Type of auditor's report issued on compliance for major programs:	Qualified
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?	_X_ yes __ no

Morris Heights Health Center, Inc. and Subsidiaries

Schedule of Findings and Questioned Costs
June 30, 2014

Identification of major programs:

CFDA Number(s)	Name of Federal Program
	U.S. Department of Health and Human Services:
	Health Centers Cluster:
93.224	Consolidated Health Centers
93.527	Affordable Care Act (ACA) Grants for New and Expanded Services under the Health Center Program
93.297	Teenage Pregnancy Prevention Program
93.918	Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease
10.557	Special Supplemental Nutrition Program for Women, Infants and Children

Dollar threshold used to distinguish between type A and B programs: $565,317

Auditee qualified as low-risk auditee? ___ yes _X_ no

Morris Heights Health Center, Inc. and Subsidiaries

Schedule of Findings and Questioned Costs
June 30, 2014

Section II - Financial Statement Findings and Section III - Federal Awards and Questioned Costs

Item 2014-001 Patient Revenue and Receivables: U.S. Department of Health and Human Services, Health Centers Cluster: Consolidated Health Centers (CFDA 93.224) and Affordable Care Act (ACA) Grants for New and Expanded Services under the Health Center Program (CFDA 93.527)

Criteria:
Patient revenue and receivable accounts must be reconciled on a timely basis in order to ensure that program income is maximized.

Statement of Condition:
During the audit, we noted that the patient receivable subsidiary ledger was not reconciled timely to the general ledger which necessitated material adjustments to be made to the general ledger. We also noted that due to untimely monitoring of the collectability of patient receivables, material adjustments had to be made to the allowance in order to ensure that the patient receivables is stated at the net collectible amount as of year-end.

Questioned Costs:
None.

Cause:
Due to limitations on report generation from the billing system, the finance department was not able to perform certain reconciliations on a timely manner.

Effect:
This condition may lead to inaccurate internal financial reporting of the consolidated financial statements at any point in time.

Recommendation:
We recommend that reconciliation of the general ledger and the subsidiary ledger be performed monthly to ensure that the general ledger is fairly stated at any point in time. We further recommend that timely monitoring of the collectability of patient receivables be done in order to ensure that the allowances are sufficient and that patient receivables is stated at the net collectible amount.

Management Response:
Management concurs with the finding and will ensure that reconciliations of accounts and monitoring of the collectability of patient receivables are performed and reviewed monthly.

Item 2014-002 Sliding Fee Discounts: U.S. Department of Health and Human Services, Health Centers Cluster: Consolidated Health Centers (CFDA 93.224) and Affordable Care Act (ACA) Grants for New and Expanded Services under the Health Center Program (CFDA 93.527)

Criteria:
Health centers are required to have a corresponding schedule of discounts applied and adjusted on the basis of the patients' ability to pay and their eligibility. A patient's eligibility to pay is determined on the basis of the official poverty guidelines, as revised by HHS (42 CFR Sections 51c.107(b)(5), 56.108(b)(5) and 56.303(f)). The Center should be implementing and monitoring procedures to properly determine, calculate and review sliding fee discounts issued to patients in accordance with the Center's sliding fee scale.

Statement of Condition:
7 out of the 60 samples selected for testing eligibility and program income compliance requirements had exceptions. The exceptions are as follows: (1) the Center did not properly determine the sliding fee discount category given to 3 of the 60 patients selected for testing based on the sliding fee scale in effect for the fiscal year ended June 30, 2014; (2) the Center did not maintain the proof of income or self attestation for 4 out of 60 patients selected for testing.

Questioned Costs:
None

Cause:
During the fiscal year, Center was in the process of updating the Practice Management System database and training the staff on the new system.

Effect:
The Center did not comply with the determination of sliding fee discounts based on the Federal poverty guidelines in effect for the fiscal year 2014. In addition, the Center may not have properly calculated the sliding fee or discount given to the patients and the discount given, if any, may not have been based on the patient's ability to pay.

Recommendation:
We recommend that proper training be given to employees at registration and that sliding fee discounts be monitored and reviewed by a supervisor on a periodic basis to ensure compliance with the sliding fee scale. We also recommend that the Center improve the implementation of their policy regarding keeping and maintaining the patients' proof of income or self-attestation regarding their income.

Management Response:
Management recognizes the need to ensure appropriate compliance with all sliding fee scale guidelines and has implemented measures to ensure that all staff understand and are trained on collection of documentation from patients. The front desk staff currently processes the sliding fee scale using the most recently published Federal Poverty Guidelines to ensure that the patient pays the appropriate fees. The Center has implemented a process to ensure that proof of income is gathered and uploaded to the system at time of registration.

Morris Heights Health Center, Inc. and Subsidiaries

Schedule of Prior Year's Findings
June 30, 2014

Item 13-1 - *Books and Records*	Not fully corrected. See Item 2014-001
Item 13-2 - *Sliding Fee Discounts*	Not corrected. See Item 2014-002
Item 13-3 - *Time and Effort Reporting*	Corrected