

**WILLIAM F. RYAN COMMUNITY
HEALTH CENTER, INC.**

**AUDITED FINANCIAL STATEMENTS
AND SUPPLEMENTARY REPORTS
RELATED TO OMB CIRCULAR A-133**

DECEMBER 31, 2014

**BCA WATSON RICE LLP
CERTIFIED PUBLIC ACCOUNTANTS**

**WILLIAM F. RYAN COMMUNITY HEALTH CENTER, INC.
DECEMBER 31, 2014**

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
William F. Ryan Community Health Center, Inc.
New York, New York

Report on the Financial Statements

We have audited the accompanying financial statements of William F. Ryan Community Health Center, Inc. which comprise the balance sheet as of December 31, 2014, and the related statements of operations, changes in net assets, functional expenses and cash flows for the year then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 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.

INDEPENDENT AUDITOR'S REPORT – CONTINUED

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of William F. Ryan Community Health Center, Inc. as of December 31, 2014, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of expenditures of federal awards, as required by *Office of Management and Budget (OMB) 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 1, 2015 on our consideration of William F. Ryan Community Health Center, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering William F. Ryan Community Health Center Inc.'s internal control over financial reporting and compliance.

BCA Watson Rice LLP

New York, New York
June 1, 2015

WILLIAM F. RYAN COMMUNITY HEALTH CENTER, INC.
BALANCE SHEET
DECEMBER 31, 2014

Assets

Current Assets

Cash	\$ 17,804,551
Restricted cash (Note 10)	915,011
Patient services receivable - net (Note 3)	2,721,691
DHHS grants receivable	4,638
Contracts receivable (Note 4)	809,756
Prepaid expenses and other current assets	<u>961,917</u>
Total Current Assets	23,217,564
Property and Equipment - Net (Notes 5 and 15)	48,067,327
Due from Related Parties (Note 13)	<u>4,458,311</u>
Total Assets	<u><u>\$ 75,743,202</u></u>

Liabilities and Net Assets

Current Liabilities

Accounts payable and accrued expenses	\$ 3,174,073
Accrued compensation	1,700,855
Current portion of loans payable (Note 6)	<u>94,738</u>
Total Current Liabilities	4,969,666

Long-term Liabilities

Loans payable (Note 6)	2,029,022
Obligations under capital lease (Note 15)	<u>28,736,337</u>
Total Liabilities	<u>35,735,025</u>

Net Assets (Note 10)

Unrestricted	
Board designated	915,011
Undesignated	<u>39,051,551</u>
Total unrestricted net assets	39,966,562
Temporarily restricted	<u>41,615</u>
Total Net Assets	<u>40,008,177</u>
Total Liabilities and Net Assets	<u><u>\$ 75,743,202</u></u>

See notes to financial statements.

WILLIAM F. RYAN COMMUNITY HEALTH CENTER, INC.
STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS
YEAR ENDED DECEMBER 31, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenues			
DHHS grants (Note 7)	\$ 10,293,745	\$ -	\$ 10,293,745
Patient services - net (Note 8)	26,219,107	-	26,219,107
Contract services (Note 9)	6,765,479	-	6,765,479
Contributions	49,230	-	49,230
Fundraising - net of \$169,709 expenses	102,592	-	102,592
Other (Note 14)	1,216,516	-	1,216,516
Net assets released from restrictions	<u>74,872</u>	<u>(74,872)</u>	<u>-</u>
Total Revenues	<u>44,721,541</u>	<u>(74,872)</u>	<u>44,646,669</u>
Expenses			
Salaries and benefits	28,587,790	-	28,587,790
Other than personnel services	10,828,386	-	10,828,386
Interest	<u>1,353,830</u>	<u>-</u>	<u>1,353,830</u>
Total Expenses	<u>40,770,006</u>	<u>-</u>	<u>40,770,006</u>
Operating Income Prior to Depreciation and Amortization	3,951,535	(74,872)	3,876,663
Depreciation and Amortization	<u>2,708,292</u>	<u>-</u>	<u>2,708,292</u>
Changes in Net Assets	1,243,243	(74,872)	1,168,371
Net Assets, Beginning of Year	<u>38,723,319</u>	<u>116,487</u>	<u>38,839,806</u>
Net Assets, End of Year	<u>\$ 39,966,562</u>	<u>\$ 41,615</u>	<u>\$ 40,008,177</u>

See notes to financial statements.

WILLIAM F. RYAN COMMUNITY HEALTH CENTER, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2014

	Program Services	General and Administrative	Total
Salaries and wages	\$ 16,810,633	\$ 4,736,623	\$ 21,547,256
Fringe benefits	5,910,443	1,130,091	7,040,534
Consultants and contractual services	2,614,511	550,325	3,164,836
Professional fees	-	258,651	258,651
Laboratory - outside services	177,252	-	177,252
Pharmaceuticals	131,766	-	131,766
Radiology	41,467	-	41,467
Travel, conferences and meetings	171,219	44,105	215,324
Occupancy	514,770	89,327	604,097
Consumable supplies	2,258,207	237,558	2,495,765
Repairs and maintenance	864,593	152,575	1,017,168
Insurance	153,107	76,403	229,510
Telephone	394,030	131,344	525,374
Printing, publications and postage	227,167	52,866	280,033
Personnel recruitment	447,691	101,806	549,497
Interest	1,150,756	203,074	1,353,830
Other	568,588	569,058	1,137,646
	<u>32,436,200</u>	<u>8,333,806</u>	<u>40,770,006</u>
Depreciation and amortization	<u>2,302,048</u>	<u>406,244</u>	<u>2,708,292</u>
	<u>\$ 34,738,248</u>	<u>\$ 8,740,050</u>	<u>\$ 43,478,298</u>

See notes to financial statements.

WILLIAM F. RYAN COMMUNITY HEALTH CENTER, INC.
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2014

Cash Flows from Operating Activities

Changes in net assets	\$ 1,168,371
Adjustments to reconcile changes in net assets to net cash provided by operating activities:	
Depreciation and amortization	2,708,292
Provision for doubtful accounts	31,695
(Increase) decrease in operating assets:	
Patient services receivable	(379,786)
DHHS grants receivable	62,395
Contracts receivable	365,172
Due from related parties	504,226
Prepaid expenses and other current assets	(11,513)
Decrease in operating liabilities:	
Accounts payable and accrued expenses	(1,000,151)
Accrued compensation	(615,130)
Net cash provided by operating activities	<u>2,833,571</u>

Cash Flows from Investing Activities

Net purchase of property and equipment	(2,230,270)
Increase in restricted cash	<u>(915,011)</u>
Net cash used in investing activities	<u>(3,145,281)</u>

Cash Flows from Financing Activities

Net payment of loans	<u>(1,069,123)</u>
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Net Decrease in Cash (1,380,833)

Cash, Beginning of Year 19,185,384

Cash, End of Year \$ 17,804,551

Supplemental Disclosure of Cash Flow Information

Interest paid \$ 1,353,830

See notes to financial statements.

WILLIAM F. RYAN COMMUNITY HEALTH CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014

1. ORGANIZATION

William F. Ryan Community Health Center, Inc. (the “Center”) operates freestanding diagnostic and treatment centers, located in Manhattan, licensed under Article 28 of the New York State Health Law. The Center provides a broad range of health services to a largely medically underserved population.

The U.S. Department of Health and Human Services (“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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Basis of Presentation

The Center reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

These classes are defined as follows:

Unrestricted net assets – Net assets that are not subject to donor-imposed restrictions.

Temporarily restricted net assets – Net assets subject to donor-imposed restrictions that will be met either by actions of the Center and/or passage of time.

Permanently restricted net assets – Net assets subject to donor-imposed restrictions that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Center.

Currently, the Center has no permanently restricted net assets.

Cash

The Center maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Center has not experienced any losses on such accounts.

**WILLIAM F. RYAN COMMUNITY HEALTH CENTER, INC.
NOTES TO FINANCIAL STATEMENTS – CONTINUED**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Restricted Cash

Cash restricted by the board for capital expenditures and is not available for operating purposes.

Patient Services Receivable

Patient services receivable is reported at its outstanding unpaid principal balances reduced by an allowance for doubtful accounts. The Center estimates doubtful accounts based on historical bad debts, factors related to specific payor's ability to pay, and current economic trends. The Center writes off patient services receivable against the allowance when a balance is determined to be uncollectible.

Property and Equipment

Property and equipment is recorded at cost. Depreciation and amortization are recorded on the 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.

Assets under capital lease are recorded at the present value of the minimum lease payments and are amortized on a straight-line basis over the term of the lease. The amortization expense on assets under capital lease is included with amortization expense on owned assets.

Interest cost on borrowings incurred during the new construction or upgrade of qualifying assets are capitalized. Capitalized interest is added to the cost of the underlying assets and is amortized over the term of the lease.

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

**WILLIAM F. RYAN COMMUNITY HEALTH CENTER, INC.
NOTES TO FINANCIAL STATEMENTS – CONTINUED**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Revenue Recognition

Contributions, including government grants and contracts, are recorded as either temporarily or permanently restricted revenue if they are received with donor stipulations that limit the use of the donated asset. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted assets are reclassified to unrestricted net assets and reported in the statement of operations and changes in net assets as net assets released from restrictions. Donor-restricted contributions whose restrictions expire during the same calendar year are recognized as unrestricted revenue.

Revenue from government grants and contracts designated for use in specific activities is recognized in the period when the expenditures have been incurred in compliance with the grantor's restrictions. Grants and contracts awarded for the acquisition of long-lived assets are reported as unrestricted non-operating revenue, in the absence of donor stipulations to the contrary, during the calendar year in which the assets are acquired. Cash received in excess of revenue recognized is recorded as refundable advances. At December 31, 2014, the Center has received conditional grants and contracts from governmental entities in the aggregate amount of \$9,670,346 that have not been recorded in these financial statements. These grants and contracts require the Center to provide certain healthcare services during specified future periods. If such services are not provided during the periods, the governmental entities are not obligated to expend the funds allotted under the grants and contracts.

Patient services revenue is reported at estimated net realizable amounts from patients, third-party payors, and others for services rendered and includes estimated retroactive revenue adjustments due to future audits, reviews, and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews, and investigations. Self-pay revenue is recorded at published charges with charitable allowances deducted to arrive at net self-pay revenue. All other patient services revenue is recorded at published charges with contractual allowances deducted to arrive at patient services, net.

Interest earned on federal funds is recorded as a payable to the Public Health Service ("PHS") in compliance with OMB Circular A-110.

**WILLIAM F. RYAN COMMUNITY HEALTH CENTER, INC.
NOTES TO FINANCIAL STATEMENTS – CONTINUED**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Charity Care

The Center provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Center does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

The Center's estimated cost for charity care was \$6,030,678 for 2014. The cost of charity includes the direct and indirect cost of providing charity care services. The cost is estimated based on the New York State methodology. Funds received from the New York State Indigent Care Pool to offset charity services provided totaled \$2,395,605 in 2014. The charity care component of the indigent care pool payments is estimated by utilizing the approved Medicaid cost per visit and multiplying it by the approved visits to calculate charity care/bad debt operating cost less bad debt expense.

Functional Allocation of Expenses

The costs of providing for the Center's programs and other activities have been summarized on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting services that are benefited.

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.

Income Taxes

The Center was incorporated as a not-for-profit corporation under the laws of the State of New York and is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. Therefore, there is no provision for income taxes.

Accounting principles generally accepted in the United States of America requires management to evaluate tax position taken or expected to be taken by the Center in a tax return and to recognize a tax liability or an asset if the Center has taken an uncertain position that more likely than not would not be sustained upon examination by the Internal Revenue Service (IRS). The Center does not believe its financial statements include any uncertain tax positions.

**WILLIAM F. RYAN COMMUNITY HEALTH CENTER, INC.
NOTES TO FINANCIAL STATEMENTS – CONTINUED**

3. PATIENT SERVICES RECEIVABLE

Patient services receivable consists of:

Medicaid	\$ 2,002,132
Medicare	133,482
Private insurance	41,239
Self-pay	67,314
New York State Uncompensated Care	<u>544,838</u>
	2,789,005
Less allowance for doubtful accounts	<u>(67,314)</u>
	<u><u>\$ 2,721,691</u></u>

4. CONTRACTS RECEIVABLE

Contracts receivable consists of:

New York State Department of Health:	
AIDS Institute - Multi-service Agency	\$ 181,076
Women, Infants and Children Program	204,283
High School Health Program	114,000
New York City Department of Health and Mental Hygiene:	
HIV Care Services Program	254,090
Others	<u>56,307</u>
	<u><u>\$ 809,756</u></u>

5. PROPERTY AND EQUIPMENT

Property and equipment consists of:

Land	\$ 76,145
Building and improvements, including assets under capital lease of \$28,451,884	43,748,787
Leasehold improvements	18,884,175
Furniture and equipment	<u>10,882,766</u>
	73,591,873
Less accumulated depreciation and amortization	(31,032,011)
Construction-in-progress	<u>5,507,465</u>
	<u><u>\$ 48,067,327</u></u>

**WILLIAM F. RYAN COMMUNITY HEALTH CENTER, INC.
NOTES TO FINANCIAL STATEMENTS – CONTINUED**

5. PROPERTY AND EQUIPMENT – CONTINUED

During 2010, interest costs related to the capital lease amounting to \$502,825 incurred during the construction period, have been capitalized as part of the assets under capital lease. Accumulated amortization included in the accumulated depreciation and amortization associated with assets under capital lease was \$2,667,364 at December 31, 2014.

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

6. LOANS PAYABLE

On October 16, 2009 (the “Closing Date”), the Center entered into a loan agreement with Afia Foundation, Inc. (“Afia”) with a maximum principal amount of \$6,500,000, to be advanced by Afia to the Center on a monthly basis commencing on October 16, 2009 in monthly installments of \$1,000,000, to be used by the Center to pay for the costs of the construction, renovation and build out and equipping and furnishing of the Center’s tenant leasehold improvements at 801 Amsterdam Avenue, New York, New York.

The loan has a term of 20 years and bears interest at the United States Prime Rate as listed in the Eastern print edition of the Wall Street Journal (“U.S. Prime Rate”) plus 1% as of the Closing Date. On each anniversary of the Closing Date, the interest rate shall be reset to the rate equal to the U.S. Prime Rate plus 1%, which shall never exceed 7% per annum. During the first twelve (12) months after the Closing Date, the Center shall pay interest only on the loan commencing December 1, 2009 and continuing on the first business day of each month through and including November 1, 2010. Principal and interest on the loan shall thereafter be paid by the Center to Afia on the first business day of each month commencing on December 1, 2010 and continuing thereafter on the first business day of each month until the loan has been repaid in full so as to fully amortize the loan by December 1, 2030. As permitted under the loan agreement, the Center made an additional principal pre-payment of \$1,000,000 without penalty during 2014. As of December 31, 2014, this loan has a balance of \$2,123,760.

**WILLIAM F. RYAN COMMUNITY HEALTH CENTER, INC.
NOTES TO FINANCIAL STATEMENTS – CONTINUED**

6. LOANS PAYABLE – CONTINUED

The future scheduled maturities of loans payable are as follows:

<u>Year Ending December 31,</u>	
2015	\$ 94,738
2016	98,844
2017	103,128
2018	107,597
2019	112,260
Thereafter	<u>1,607,193</u>
	<u>\$ 2,123,760</u>

7. DHHS GRANTS

For the year ended December 31, 2014, the Center received the following grants from DHHS:

<u>Grant Number</u>	<u>Grant Period</u>	<u>Total Grant Amount</u>	<u>Revenue Recognized</u>
6H80CS00061-13-09	12/01/13-11/30/14	\$ 8,552,973	\$ 7,500,350
6H80CS00061-14-03	12/01/14-11/30/15	8,370,996	604,144
6H76HA00024-23-03	04/01/13-03/31/14	1,023,572	318,998
6H76HA00024-24-00	04/01/14-03/31/15	1,023,572	661,403
1U79SP020253-01	09/30/13-09/29/14	116,000	87,000
5U79SP016428-04	09/30/13-09/29/14	300,000	212,700
5U79SP016428-05	09/30/14-09/29/15	300,000	87,300
6C8BCS23957-01-05	05/01/12-04/30/14	99,187	99,187
1C8CCS27610-01-00	09/01/14-08/31/16	248,750	2,663
6C8ACS23797-01-03	05/01/12-04/30/15	4,658,340	<u>1,865,000</u>
			11,438,745
			<u>(1,145,000)</u>
			<u>\$ 10,293,745</u>

Less subgrants passed through to other organization

**WILLIAM F. RYAN COMMUNITY HEALTH CENTER, INC.
NOTES TO FINANCIAL STATEMENTS – CONTINUED**

8. PATIENT SERVICES

Patient services consists of:

	Gross Charges	Contractual and Charitable Allowances	Net Revenue
Medicaid	\$ 3,979,028	\$ 1,024,588	\$ 5,003,616
Medicaid Managed Care	24,087,082	(19,896,726)	4,190,356
Medicare	4,506,524	(2,683,786)	1,822,738
Private insurance	1,951,239	(1,551,697)	399,542
Patient fees	5,239,213	(4,605,316)	633,897
	<u>\$ 39,763,086</u>	<u>\$ (27,712,937)</u>	12,050,149
New York State			
Uncompensated Care			2,395,605
New York State and Child			
Health Plus Wraparound			10,547,145
Medicaid Managed Care			
Incentives			<u>1,257,904</u>
Patient services (net of contractual and charitable allowances)			26,250,802
Provision for doubtful accounts			<u>(31,695)</u>
Net patient services less provision for doubtful accounts			<u>\$ 26,219,107</u>

Medicaid and Medicare revenues are reimbursed to the Center at the net reimbursement rates as determined by each program. Reimbursement rates are subject to revisions under the provisions of regulations. Adjustments for such revisions are recognized in the calendar year received.

**WILLIAM F. RYAN COMMUNITY HEALTH CENTER, INC.
NOTES TO FINANCIAL STATEMENTS – CONTINUED**

9. CONTRACT SERVICES

For the year ended December 31, 2014, contract services consists of the following:

New York State Department of Health:	
Women, Infants and Children Program	\$ 1,006,255
High School Health Program	765,156
AIDS Institute - Multi-service Agency	902,629
Health Research, Inc.:	
Women’s Supportive Services	104,979
New York City Department of Health and Mental Hygiene:	
HIV Care Services Program	1,263,987
Vaccines for Children Program	1,119,769
HEAL 17 Urban Institute	32,847
St. Lukes Roosevelt	380,000
Beth Israel	340,000
Continuum Health Partners	186,118
Entertainment Industry Foundation	
- Revlon Program	48,500
The Sophie Davis School Program	10,243
Avon Breast Cancer Center	11,400
ConEdison	112,500
Peter Lucia Foundation	75,000
Others	406,096
	<u>\$ 6,765,479</u>

10. NET ASSETS

Board-Designated Fund

The Board of Directors has designated \$915,011 for general capital improvements and equipment. These funds were reverted back to the Center as the results of the waiver of distribution agreement entered into by the Center and a key employee during 2013, when the elective deferred compensation agreement in accordance with the supplemental executive retirement plan was terminated.

**WILLIAM F. RYAN COMMUNITY HEALTH CENTER, INC.
NOTES TO FINANCIAL STATEMENTS – CONTINUED**

10. NET ASSETS - CONTINUED

Temporarily Restricted

As of December 31, 2014, the amount of \$41,615 is temporarily restricted for the Center's Capital Development program, Development Proposal and the EMR project.

11. PENSION PLANS

The Center has a defined contribution pension plan covering substantially all non-union full-time employees meeting certain eligibility requirements. Contributions to the plan are based on a percentage of salaries. In addition, the Center has adopted a supplemental executive retirement plan for selected key management personnel. During the year, there was \$5,211 in pension plan forfeitures that the Center applied towards payments for the 2014 year-end pension contribution. Pension expense amounted to \$168,476 for the year ended December 31, 2014.

Also, in connection with its collective bargaining agreement with 1199SEIU United Healthcare Workers East, the Center participates in a defined benefit pension plan. The plan covers substantially all of the Center's union employees. Pension expense amounted to \$986,900 for the year ended December 31, 2014.

12. MULTIEMPLOYER PENSION PLAN

The Center contributes to a multiemployer defined benefit pension plan under the terms of collective bargaining agreement that cover its union-represented employees. The risk of participating in this multiemployer plan is different from single-employer plan in the following aspects:

- a. Assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees of other participating employers.
- b. If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers.
- c. If the Center chooses to stop participating in the multiemployer plan, the Center may be required to pay the plan an amount based on the underfunded status of the plan, referred to as withdrawal liability.

**WILLIAM F. RYAN COMMUNITY HEALTH CENTER, INC.
NOTES TO FINANCIAL STATEMENTS – CONTINUED**

12. MULTIEMPLOYER PENSION PLAN – CONTINUED

The Center’s participation in the plan for the annual period ended December 31, 2014, is outlined in the table below. The “EIN/Pension Plan Number” column provided the Employee Identification Number (“EIN”) and the three-digit plan number, if applicable. Unless otherwise noted, the most recent Pension Protection Act (“PPA”) zone status available in 2014 is for the plan’s year-end at December 31, 2013. The zone status is based on information that the Center received from the plan and is certified by the plan’s actuary. Among other factors, plan in the red zone is generally less than 65% funded, plan in the yellow zone is less than 80% funded, and plan in the green zone is at least 80% funded. The “FIP/RP Status Pending/Implemented” column indicates plans for which a financial improvement plan (“FIP”) or a rehabilitation plan (“RP”) is either pending or has been implemented. The last column list the expiration date of the collective bargaining agreement to which the plan is subject.

In addition, a memorandum of agreement was entered into between the Center and the Plan, whereby effective December 1, 2010, the full value of one percent (1%) of the three percent (3%) wage increase scheduled for December 1, 2010 shall be used to increase contribution rates necessary to support the National Benefit Fund and Pension Fund.

Pension Fund	EIN/ Pension Plan Number	Pension Protection Act Zone Status	FIP/RP Status Pending/Implemented	Contributions by the Center	Surcharge Imposed	Expiration Date of Collective-Bargaining Agreement
1199SEIU Health Care Employees Pension Fund	13-3604862/001	Green as of 12/31/14	No	\$ 1,005,147	No	September 30, 2018

13. RELATED PARTY TRANSACTIONS

The Center is related to the Ryan/Chelsea-Clinton Community Health Center, Inc. (“RCC”) through the existence of economic interest. The Center has paid for expenses on behalf of RCC since inception, and in 2004 issued a subvention certificate in the amount of \$1,600,000. The Center evaluated the collectibility of the subvention certificate and, as a result, reserved the amount in 2004. In addition, the Center evaluated the collectibility of \$622,341 due from RCC and reserved this amount in 2004. A subrecipient agreement exists between RCC and the Center whereby the Center provides federal awards as well as administrative, fiscal and support services to RCC. Federal funding totaling \$1,145,000 was awarded to RCC during the year and services provided related to this agreement amounted to \$500,000. As of December 31, 2014, the Center’s receivable from RCC amounted to \$4,425,478.

The Center and RCC are the corporate members of Afia acting through their individual board of directors.

**WILLIAM F. RYAN COMMUNITY HEALTH CENTER, INC.
NOTES TO FINANCIAL STATEMENTS – CONTINUED**

14. COMMITMENTS AND CONTINGENCIES

The Center has contracted with various funding agencies to perform certain healthcare services, and receives Medicaid and Medicare revenues from the state and federal governments. Reimbursements received under these contracts and payments from Medicaid and Medicare are subject to audit by federal and state governments and other agencies. Upon audit, if discrepancies are discovered, the Center could be held responsible for refunding 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 Center maintains gap insurance for claims that are not covered by FTCA. The Center has been named in litigation claims in the normal course of its operations. These claims will, in the opinion of management, be fully covered by the Center’s insurance coverage and will not have a material adverse effect upon the financial position of the Center.

15. LEASE AGREEMENT

On February 28, 2008, the Center entered into a 49 year lease agreement for office and clinical space (the “Leased Premises”) in a building located at 801 Amsterdam Avenue, New York, New York.

At December 31, 2009, the lease was recorded as a capital lease at the present value of the future payments due under the lease, amounting to \$27,949,059. The related liability under the capital lease amounting to \$28,736,337 as of December 31, 2014, is due in monthly installments for principal and interest until June 2058.

**WILLIAM F. RYAN COMMUNITY HEALTH CENTER, INC.
NOTES TO FINANCIAL STATEMENTS – CONTINUED**

15. LEASE AGREEMENT – CONTINUED

The following is a schedule by years of future minimum lease payments under capital lease together with the present value of the minimum lease payments as of December 31, 2014:

<u>Year Ending December 31,</u>	
2015	\$ 1,132,888
2016	1,132,888
2017	1,132,888
2018	1,268,719
2019	1,268,719
Thereafter	<u>61,170,942</u>
Total minimum lease payments	67,107,044
Less amount representing interest	<u>(38,370,707)</u>
Present value of minimum lease payments	<u>\$ 28,736,337</u>

The Center also has an option to purchase the Leased Premises at any time after the tenth (10th) anniversary of the Commencement Date but prior to the twentieth (20th) anniversary of the Commencement Date, at a purchase price of \$19,800,000.

16. 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 or disclosed in the financial statements. Such evaluation is performed through the date the financial statements were available to be issued, which was June 1, 2015 for these financial statements.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
William F. Ryan Community Health Center, Inc.
New York, New York

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 of William F. Ryan Community Health Center, Inc. (the "Center"), which comprise the balance sheet as of December 31, 2014, and the related statements of operations, changes in net assets, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 1, 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.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS* – CONTINUED

Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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.

BCA Watson Ric LLP

New York, New York
June 1, 2015

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM
AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY OMB CIRCULAR A-133**

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
William F. Ryan Community Health Center, Inc.
New York, New York

Report on Compliance for Each Major Federal Program

We have audited William F. Ryan Community Health Center, Inc.'s (the "Center") 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 December 31, 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.

Opinion on Each 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 December 31, 2014.

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND
REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB
CIRCULAR A-133 – CONTINUED**

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.

BCA Watson Rice LLP

New York, New York
June 1, 2015

**WILLIAM F. RYAN COMMUNITY HEALTH CENTER, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2014**

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Total Expenditures
<u>U.S. Department of Health and Human Services</u>			
Direct Programs:			
Consolidated Health Centers	93.224	N/A	\$ 8,132,933
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918	N/A	1,014,156
Substance Abuse and Mental Health Services: Projects of Regional and National Significance	93.243	N/A	387,200
Affordable Care Act Grants for Capital Development in Health Centers	93.526	N/A	1,966,850
Passed through Public Health Solutions:			
HIV Emergency Relief Project Grants	93.914	11-ESP-536, 07-HRR-536 11-OHY-536, 11-ESR-536 13-SLC-536	1,227,317
Passed through Health Research, Inc.:			
HIV Care Formula Grants - Supportive Services Initiative	93.917	3960-04, 3960-05	192,311
HIV Care Formula Grants - Women's Supportive Services	93.917	3722-05, 3722-06	89,159
Passed through the New York State Department of Health:			
Maternal and Child Health Services Block Grant to the States	93.994	C-022491	<u>99,072</u>
Total U.S. Department of Health and Human Services			<u>13,108,998</u>
<u>U.S. Department of Agriculture</u>			
Passed through New York State Department of Health:			
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	C-025811	<u>3,512,175</u>
Total Expenditures of Federal Awards			<u>\$ 16,621,173</u>

See notes to schedule of expenditures of federal awards.

**WILLIAM F. RYAN COMMUNITY HEALTH CENTER, INC.
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2014**

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the “Schedule”) includes all federal grant activities of William F. Ryan Community Health Center, Inc. under programs of the federal government for the year ended December 31, 2014. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (“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 William F. Ryan Community Health Center, Inc., it is not intended to and does not present the financial position, changes in net assets or cash flows of William F. Ryan Community Health Center, Inc.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

3. SUBRECIPIENT

Of the federal expenditures presented in the schedule, the Center provided federal awards to a subrecipient as follows:

<u>Program Title</u>	<u>Federal CFDA Number</u>	<u>Amount Provided to Subrecipient</u>
Consolidated Health Center Program	93.224	\$ 1,050,000
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918	<u>95,000</u>
		<u>\$ 1,145,000</u>

4. NONMONETARY ASSISTANCE

Nonmonetary assistance is reported in the schedule at the fair market value of the Women, Infants, and Children (WIC) Program checks received. The total federal share of food instruments distributed by the Center amounted to \$2,715,613 and is included in the schedule of expenditures of federal awards.

**WILLIAM F. RYAN COMMUNITY HEALTH CENTER, INC.
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 YEAR ENDED DECEMBER 31, 2014**

SECTION I – SUMMARY OF AUDITOR’S RESULTS

Financial Statements

Type of auditor’s report issued: Unmodified

Internal control over financial reporting:
 Material weakness(es) identified? yes √ no
 Significant deficiency(ies) identified? yes √ none reported

Noncompliance material to financial statements noted? yes √ no

Federal Awards

Internal control over major programs:
 Material weakness(es) identified? yes √ no
 Significant deficiency(ies) identified? yes √ none reported

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

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

Identification of Major Programs

<u>CFDA No.</u>	<u>Name of Federal Program or Cluster</u>
93.918	Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease
93.914	HIV Emergency Relief Project Grants
10.557	Special Supplemental Nutrition Program for Women, Infants and Children

Dollar threshold used to distinguish
 between Type A and Type B programs: \$498,635

Auditee qualified as low-risk auditee? √ yes no

**WILLIAM F. RYAN COMMUNITY HEALTH CENTER, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED**

SECTION II – FINANCIAL STATEMENT FINDINGS

None.

SECTION III – FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None.

**WILLIAM F. RYAN COMMUNITY HEALTH CENTER, INC.
SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED DECEMBER 31, 2014**

None.