

**SAINT JOSEPH'S MERCY CARE  
SERVICES, INC.**

**COMBINED FINANCIAL STATEMENTS  
AND COMPLIANCE REPORTS**

*As of and for the Eighteen-Month Period Ended  
June 30, 2014*

*And Report of Independent Auditor*

**SAINT JOSEPH’S MERCY CARE SERVICES, INC.**

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## Report of Independent Auditor

The Board of Directors  
Saint Joseph's Mercy Care Services, Inc.  
Atlanta, Georgia

We have audited the accompanying combined financial statements of Saint Joseph's Mercy Care Services, Inc. ("SJMCS"), which comprise the combined statement of financial position as of June 30, 2014, and the related combined statements of activities and cash flows for the eighteen-month period ended June 30, 2014, and the related notes to the combined financial statements.

### Management's Responsibility for the Financial Statements

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to SJMCS' preparation and fair presentation of the combined 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 SJMCS' 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 combined 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 combined financial statements referred to above present fairly, in all material respects, the combined financial position of SJMCS as of June 30, 2014, and the changes in its net assets and its cash flows for the eighteen-month period ended June 30, 2014 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 combined financial statements of SJMCS as a whole. The accompanying schedule of expenditures of federal and state awards for the eighteen-month period ended June 30, 2014 is presented for the purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the combined 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 combined financial statements. The information has been subjected to the auditing procedures applied in the audit of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined 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 combined financial statements as a whole.

Our audit was conducted for the purpose of forming an opinion on the combined financial statements taken as a whole. The supplemental combining statements appearing on pages 20 and 21 are presented for purposes of additional analysis and are not a required part of the combined 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 combined financial statements. The information has been subjected to the auditing procedures applied in the audit of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined 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 combined 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 March 20, 2015 on our consideration of SJMCS' 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 SJMCS' internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Cherry Bekart LLP".

Atlanta, Georgia  
March 20, 2015

**SAINT JOSEPH'S MERCY CARE SERVICES, INC.**  
**COMBINED STATEMENT OF FINANCIAL POSITION**

*JUNE 30, 2014*

**ASSETS**

Current Assets:

Cash and cash equivalents	\$	2,412,429
Patient accounts receivable, less allowances for uncollectible accounts of approximately \$6,224 in 2014		76,259
Grants receivable		387,213
Other receivables		230,933
Due from affiliates		274,787
Other assets		167,649

Total Current Assets 3,549,270

Property and equipment, net 10,607,010

Interest in net assets of Saint Joseph's Mercy Foundation, Inc. 9,862,870

**Total Assets** \$ 24,019,150

**LIABILITIES AND NET ASSETS**

Current Liabilities:

Accounts payable	\$	591,796
Salaries and benefits payable		994,009
Due to affiliates		1,622,837
Other current liabilities		802,523

Total Current Liabilities 4,011,165

Long-term debt 8,000,000

**Total Liabilities** 12,011,165

Net Assets:

Unrestricted		2,050,491
Temporarily restricted		9,957,494

**Total Net Assets** 12,007,985

**Total Liabilities and Net Assets** \$ 24,019,150

**SAINT JOSEPH'S MERCY CARE SERVICES, INC.**  
**COMBINED STATEMENT OF ACTIVITIES**

*EIGHTEEN-MONTH PERIOD ENDED JUNE 30, 2014*

**CHANGES IN UNRESTRICTED NET ASSETS:**

Revenues, gains, and other support:

Grant income	\$ 11,830,516
Support received from Saint Joseph's Health System, Inc.	9,080,039
Contributions	1,364,586
Contributed goods and services	320,061
Investment income	1,228,573
Net patient service revenue	1,467,925
Other income	231,856
Gain on sales of assets	875

25,524,431

Net assets released from restrictions

158,123

Total revenues, gains, and other support

25,682,554

Expenses:

Salaries and wages	14,276,054
Employee benefits and payroll taxes	3,070,040
Medical supplies	335,692
Drugs	482,156
Professional fees and purchased services	1,936,315
Depreciation	791,600
Taxes and insurance	251,123
Rent expense	174,478
Other supplies and expenses	4,364,000
Provision for bad debts	93,203

25,774,661

Deficit of revenues over expenses

(92,107)

Transfer of net assets to affiliated organization

(3,198,516)

Decrease in unrestricted net assets

(3,290,623)

**CHANGES IN TEMPORARILY RESTRICTED NET ASSETS:**

Contributions	158,506
Change in interest in net assets of Saint Joseph's Mercy Foundation, Inc.	3,329,122
Net assets released from restrictions	(158,123)
Change in temporarily restricted net assets	<u>3,329,505</u>

**CHANGES IN PERMANENTLY RESTRICTED NET ASSETS:**

Transfer of net assets to affiliated organization	<u>(3,368,680)</u>
Change in permanently restricted net assets	(3,368,680)
Change in net assets	(3,329,798)
Net assets, beginning of year	<u>15,337,783</u>
Net assets, end of year	<u>\$ 12,007,985</u>

**SAINT JOSEPH'S MERCY CARE SERVICES, INC.**  
**COMBINED STATEMENT OF CASH FLOWS**

*EIGHTEEN-MONTH PERIOD ENDED JUNE 30, 2014*  
*(DOLLARS IN THOUSANDS)*

**Cash flow from operating activities:**

Change in net assets	\$ (3,329,798)
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Transfer of net assets to affiliate	6,567,196
Realized losses on investments	802,252
Gain on sale of assets	(875)
Provision for bad debts	93,203
Depreciation	791,600
Changes in operating assets and liabilities:	
Patient accounts receivable	(97,188)
Grants receivable	(88,314)
Other receivables	(112,555)
Due to/from affiliates	(1,426,175)
Other assets	154,675
Interest in net assets of Saint Joseph's Mercy Foundation, Inc.	(3,329,122)
Accounts payable and accrued expenses	<u>354,071</u>
Net cash provided by operating activities	<u>378,970</u>

**Cash flows from investing activities:**

Purchases of property and equipment	<u>(302,090)</u>
Net cash used in investing activities	<u>(302,090)</u>

Net Increase in Cash and Cash Equivalents	76,880
Cash and Cash Equivalents, Beginning of Period	<u>2,335,549</u>
Cash and Cash Equivalents, End of Period	<u>\$ 2,412,429</u>

# SAINT JOSEPH'S MERCY CARE SERVICES, INC.

## NOTES TO COMBINED FINANCIAL STATEMENTS

EIGHTEEN-MONTH PERIOD ENDED JUNE 30, 2014

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### Note 1—Description of organization

Saint Joseph's Mercy Care Services, Inc. is a nonprofit corporation whose primary activity is the provision of health care services for the indigent and underserved in Atlanta, Georgia. Mercy Senior Care, Inc. ("MSC") is a nonprofit organization in Rome, Georgia, that provides adult day care, home living assistance, and employment assistance for the elderly, and is a controlled affiliate of Saint Joseph's Mercy Care Services, Inc. Mercy Services Downtown ("MSD") is a nonprofit organization designed to raise funds to expand and renovate the Saint Joseph's Mercy Care Services, Inc. headquarters. Based on the common control the combined financial statements include the accounts of Saint Joseph's Mercy Care Services, Inc., MSC and MSD (collectively, the "SJMCS").

SJMCS is a controlled entity of Saint Joseph's Health System, Inc. ("SJHS") and therefore, the combined financial statements of SJMCS are included in the combined financial statements of SJHS. SJHS is a regional health corporation ("RHC") of Catholic Health East ("CHE"), a multi-institutional health system co-sponsored by ten religious communities. These religious communities co-sponsored and formed CHE in furtherance of their common missions to strengthen the mission of Catholic health care in communities in which they operate. CHE is exempt from federal income taxes under section 501(c)(3) of the Internal Revenue Code.

Effective May 1, 2013, CHE Trinity Inc. (the "Corporation") became the sole member of CHE and Trinity Health Corporation, an Indiana nonprofit corporation ("Trinity Health") creating a unified Catholic national health system that enhances the mission of service to people and communities across the United States. The Corporation has adopted a fiscal year end of June 30. Effective, July 1, 2013 CHE changed its fiscal year from December 31 to June 30 in order to align CHE's year end with the Corporation. Consequentially since SJMCS is a controlled entity of SJHS, and therefore, CHE also changed its year end from December 31 to June 30 to align with CHE.

SJMCS incurred a deficit of revenues, gains and other support over expenses before support provided by SJHS of \$9,172,146 for the eighteen-month period ended June 30, 2014. These losses are funded by SJHS. The provision of charity care is an integral part of the mission of SJHS and the Sisters of Mercy. SJMCS has received a commitment for continued support from SJHS.

### Note 2—Summary of significant accounting policies

*Basis of Preparation and Presentation* - The combined financial statements of SJMCS have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. SJMCS is required to report information regarding its combined financial position and combined activities according to three classes of net assets, as applicable: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

*Cash and Cash Equivalents* - Cash and cash equivalents consist of cash on hand, deposits with banks and highly liquid investments. SJMCS considers all highly liquid investments purchased with an original maturity of three months or less when purchased to be cash equivalents.

*Concentration of Credit Risk* - SJMCS places its cash and cash equivalents on deposit with financial institutions in the United States. The Federal Deposit Insurance Corporation ("FDIC") covers \$250,000 for substantially all depository accounts. During the eighteen-month period ended June 30, 2014, SJMCS from time to time may have had amounts on deposit in excess of the insured limits.

**SAINT JOSEPH'S MERCY CARE SERVICES, INC.**  
**NOTES TO COMBINED FINANCIAL STATEMENTS**

*EIGHTEEN-MONTH PERIOD ENDED JUNE 30, 2014*

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**Note 2—Summary of significant accounting policies (continued)**

*Patient Accounts Receivable* - Current operations are charged with an allowance for uncollectible accounts based upon experience and any unusual circumstances which affect the collectability of receivables. Accounts deemed uncollectible are charged against the allowance. Patient accounts receivable are reported net of contractual adjustments which represent the difference between established billing rates and estimated reimbursement from Medicare, Medicaid and other third-party payment programs.

*Grants Receivable* - SJMCS receives a substantial amount of its operating support from federal, state and local government grants. Grants receivable are funds expended by SJMCS that are eligible for reimbursement under the various awarded governmental grant programs. Therefore, grants receivable represent the unreimbursed expenditures of grants awarded.

*Property and Equipment* - Property and equipment acquisitions are stated on the basis of cost with the exception of donated items, which are stated at fair market value at the date of donation. Replacements, maintenance and repairs which do not improve or extend the life of the respective assets are charged to expense when incurred.

Gifts of long-lived assets such as land, buildings, or equipment are reported as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

*Depreciation* - Depreciation is provided over the estimated useful lives of the assets using the straight-line method. Leasehold improvements are depreciated over the shorter of the remaining lease term or their estimated useful lives.

Lives used for depreciation calculations are as follows:

Vehicles	3-5 years
Buildings	30-35 years
Major Movable	5-10 years
Equipment	5-15 years

*Temporarily and Permanently Restricted Net Assets* - Temporarily restricted net assets are those whose use by SJMCS has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained in perpetuity.

*Donated Services* - SJMCS receives donated services from health care professionals, which are recorded at fair value.

*Income Taxes* - SJMCS, MSD and MSC are exempt from income taxes pursuant to Section 501(a) as organizations described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended. Accordingly, no provision for federal income taxes has been made. SJMCS, MSD and MSC have evaluated the effect of GAAP guidance on Accounting for Uncertainty in Income Taxes. Management believes that SJMCS, MSD and MSC continue to satisfy the requirements of tax-exempt organizations and therefore had no uncertain income tax positions at June 30, 2014. Management believes it is no longer subject to tax examinations for the years prior to 2011.

# SAINT JOSEPH'S MERCY CARE SERVICES, INC.

## NOTES TO COMBINED FINANCIAL STATEMENTS

EIGHTEEN-MONTH PERIOD ENDED JUNE 30, 2014

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### Note 2—Summary of significant accounting policies (continued)

*Use of Estimates* - The preparation of combined financial statements in conformity with GAAP 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 combined financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

*Adopted Accounting Pronouncements* - On July 1, 2013, SJMCS adopted Accounting Standard Update ("ASU") 2011-11, "*Disclosures About Offsetting Assets and Liabilities*." This guidance contains new disclosure requirements regarding the nature of an entity's rights of setoff and related arrangements associated with its financial instruments and derivative instruments. The adoption of this guidance had no impact on the SJMCS' combined financial statements.

On July 1, 2013, SJMCS adopted ASU 2012-02, "*Intangibles Goodwill and Other (Topic 350): Testing Indefinite-lived Intangible Assets for Impairment*." This guidance provides entities the option of first assessing qualitative factors about the likelihood that an indefinite-lived intangible asset is impaired to determine whether further impairment assessment is necessary. It also enhances the consistency of the impairment testing guidance among long-lived asset categories by permitting entities to assess qualitative factors to determine whether it is necessary to calculate the asset's fair value when testing an indefinite-lived intangible asset for impairment. The adoption of this guidance had no impact on SJMCS' combined financial statements.

On July 1, 2013, SJMCS adopted ASU 2012-05, "*Statement of Cash Flows (Topic 230): Not-for-Profit Entities: Classification of the Sale Proceeds of Donated Financial Assets in the Statement of Cash Flows*." This guidance provides clarification on how entities classify cash receipts arising from the sale of certain donated financial assets in the statement of cash flows. The adoption of this guidance had no impact on SJMCS' combined statement of cash flows.

On July 1, 2013, the FASB issued ASU 2013-01, "*Clarifying the Scope of Disclosures About Offsetting Assets and Liabilities*." This guidance provides clarification on the scope of the offsetting disclosure requirements in ASU 2011-11. The adoption of this guidance did not have a material impact on SJMCS' combined financial statements.

*Forthcoming Accounting Pronouncements* - In February 2013, the FASB issued ASU 2013-04, "*Obligations Resulting From Joint and Several Liability Arrangements for Which the Total Amount of the Obligation is Fixed at the Reporting Date*." This guidance requires entities to measure obligations resulting from the joint and several liability arrangements for which the total amount of the obligation within the scope of this guidance is fixed at the reporting date. This guidance is effective for SJMCS beginning July 1, 2014. SJMCS has not yet evaluated the impact this guidance may have on its combined financial statements.

In April 2014, the FASB issued ASU 2014-8, "*Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity*." This guidance amends the definition of a discontinued operation and requires entities to provide additional disclosures about discontinued operations as well as disposal transactions that do not meet the discontinued operations criteria. This guidance is effective for SJMCS beginning July 1, 2015, with early adoption permitted. SJMCS has not yet evaluated the impact this guidance may have on its combined financial statements.

In May 2014, the FASB issued ASU 2014-09, "*Revenue From Contracts With Customers*." This guidance outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. This guidance is effective for SJMCS beginning July 1, 2017. SJMCS has not yet evaluated the impact this guidance may have on its combined financial statements.

**SAINT JOSEPH'S MERCY CARE SERVICES, INC.**  
**NOTES TO COMBINED FINANCIAL STATEMENTS**

*EIGHTEEN-MONTH PERIOD ENDED JUNE 30, 2014*

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**Note 3—Net patient service revenue**

Third-party payors (Medicare, Medicaid, and commercial insurance payors) provide payments at amounts different from established rates. Payment arrangements include prospectively determined rates per visit, reimbursed costs, discounted charges and per diem payments. Net patient service revenue is recorded on the date of service and is reported at the estimated net realizable amounts for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors.

Gross revenue and contractual adjustments for the eighteen-month period ended June 30, 2014 are as follows:

Gross patient revenue	\$ 9,436,203
Deductions from revenue	<u>7,968,278</u>
Total	<u>\$ 1,467,925</u>

Compliance with laws and regulations governing Medicare and Medicaid programs is complex and can be subject to future government interpretation as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs.

SJMCS renders care to patients covered by the Medicare and Medicaid programs. Reimbursements for outpatient services under the Medicare program are based on fixed amounts per eligible patient subject to certain adjustments. Payments for outpatient services under the Medicaid program are generally related to the cost of providing care subject to certain prescribed limits. Services rendered under these programs are recorded at established rates and reduced to the estimated amounts due from the third-party payors through recording of contractual adjustments and other discounts. Because SJMCS cannot pursue collections for the contractual or discounted amounts, they are not reported as revenue.

**Note 4—Charity care and community benefits**

SJMCS provides care to patients who meet certain criteria under its charity care policies without charge or at amounts less than the established rates. Because SJMCS does not pursue collection of amounts determined to qualify as charity care, such amounts are not reported as revenue or accounts receivable in the accompanying combined statements of financial position and activities.

SJMCS maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges forgone and direct and indirect costs for services and supplies furnished under its charity care policies. Charges forgone for charity care were approximately \$7,769,509 for the eighteen-month period ended June 30 2014. The direct and indirect costs associated with these services for charity care provided were approximately \$9,310,271 for the eighteen-month period ended June 30, 2014.

**Note 5—Due to/from affiliated companies and related-party transactions**

During the eighteen-month period ended June 30, 2014, SJHS paid for certain costs and expenses on behalf of SJMCS. These expenses include certain employee benefits that were paid by SJHS and allocated to SJMCS. The amount allocated to SJMCS during the eighteen-month period ended June 30, 2014 was \$89,071.

During the eighteen-month period ended June 30, 2014, financial and other services were provided by SJHS and billed monthly to affiliated entities in the form of dues. Included in purchased services expenses in the combined statements of activities for the eighteen-month period ended June 30, 2014 was \$330,607 in dues charged by SJHS.

**SAINT JOSEPH'S MERCY CARE SERVICES, INC.**  
**NOTES TO COMBINED FINANCIAL STATEMENTS**

*EIGHTEEN-MONTH PERIOD ENDED JUNE 30, 2014*

**Note 5—Due to/from affiliated companies and related-party transactions (continued)**

Saint Joseph's Mercy Foundation, Inc. ("SJMF"), which is controlled by SJHS, was established to solicit contributions from the general public and to support SJHS and its nonprofit affiliates, including SJMCS. Funds are distributed to SJMCS as determined by SJMF's Board of Directors and external donors. SJMF contributed \$3,329,122 for the eighteen-month period ended June 30, 2014, which is included in temporarily restricted contributions in the accompanying combined statements of activities.

Investments held by SJMF for SJMCS' benefit at fair value totaled \$9,862,870 at June 30, 2014. These investments consist principally of marketable equity and debt securities with fair values determined by quoted market prices. The change in net unrealized gains on investments held by SJMF for SJMCS' benefit has been excluded from revenues. At June 30, 2014, there were no amounts due from SJMF.

**Note 6—Property and equipment**

Property and equipment consist of the following as of June 30, 2014:

Land, buildings, and improvements	\$ 11,685,792
Furniture, fixtures, and equipment	3,360,843
Construction in progress	142,041
Property and equipment – at cost	<u>15,188,676</u>
Less: accumulated depreciation	<u>(4,581,666)</u>
Property and equipment - net	<u><u>\$ 10,607,010</u></u>

Depreciation expense for the eighteen-month period ended June 30, 2014 was \$791,600.

**Note 7—Long-term debt**

Long-term debt consists of the following at June 30, 2014:

MSD loan (loan A) dated March 12, 2010 in the original amount of \$5,778. This note requires annual interest payments at a fixed rate of 1%. This loan is secured by SJMF and is due April 12, 2017.	\$ 5,778,000
MSD loan (loan B) dated March 12, 2010 in the original amount of \$2,222. This note requires annual interest payments at a fixed rate of 1%. This loan is secured by SJMF and is due April 12, 2017.	<u>2,222,000</u>
Total long-term debt	<u><u>\$ 8,000,000</u></u>

MSD is subject to certain loan covenants as defined in the loan documents. At June 30, 2014, management is not aware of any violations of the covenants.

**SAINT JOSEPH'S MERCY CARE SERVICES, INC.**  
**NOTES TO COMBINED FINANCIAL STATEMENTS**

*EIGHTEEN-MONTH PERIOD ENDED JUNE 30, 2014*

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**Note 7—Long-term debt (continued)**

The aggregate annual maturities of long-term debt subsequent to June 30, 2014 are as follows:

2015	\$	-
2016		-
2017		8,000,000
	\$	<u>8,000,000</u>

**Note 8—Pension and other Benefit Plans**

***Defined Benefit Pension Plan***

Substantially all of SJMCS' employees participate in a frozen, qualified noncontributory single employer defined benefit pension plan sponsored by CHE. The Plan has Church Plan status as defined in the Employee Retirement Income Security Act of 1974 ("ERISA"). As a single employer plan, participating subsidiaries have been allocated their share of pension costs (credits) and contributions based on an actuarial valuation of SJMCS' plan participants. The plan's assets are invested in equity securities, fixed income securities, money market investments, hedge funds, commingled funds directly holding securities, long/short equity, and private equity funds. SJMCS recorded net periodic pension cost (credit) of \$194,337 and made cash contributions to the plan of \$147,071 for the eighteen-month period ended June 30, 2014.

***Defined Contribution Benefits***

CHE sponsors defined contribution plans covering substantially all of SJMCS' employees. The plans are funded by employee voluntary contributions, subject to legal limitations. Employer contributions to the plans include both non-elective and matching contributions. Employer and employee contributions are self-directed by plan participants in the defined contribution plans. SJMCS recorded contribution expense under the plan of \$537,671 during the eighteen-month period ended June 30, 2014.

**Note 9—Operating leases**

SJMCS leases certain office space and equipment under operating lease agreements. Lease expense totaled \$174,478 for the eighteen-month period ended June 30, 2014. SJMCS minimum obligations over the remainder of the lease terms as of June 30, 2014 are as follows:

2015	\$	85,969
2016		21,492
	\$	<u>107,461</u>

**SAINT JOSEPH'S MERCY CARE SERVICES, INC.**  
**NOTES TO COMBINED FINANCIAL STATEMENTS**

*EIGHTEEN-MONTH PERIOD ENDED JUNE 30, 2014*

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**Note 10—Functional expenses**

SJMCS' primary purpose is to provide health care services to the indigent in Atlanta and Rome, Georgia. Expenses related to providing these services for the eighteen-month period ended June 30, 2014 are as follows:

Health care services	\$ 19,386,400
General and administrative	<u>6,388,261</u>
Total	<u>\$ 25,774,661</u>

**Note 11—Temporarily restricted net assets**

Temporarily restricted net assets at June 30, 2014 of \$9,957,494 were available for patient care and other health programs.

**Note 12—Commitments and contingencies**

SJMCS from time to time is involved in various lawsuits and regulatory investigations arising in the course of business. Based upon information, reports and analyses provided by outside consultants, attorneys and insurance carriers, management is of the opinion that adequate provisions have been made for all asserted and unasserted claims and that these matters will be resolved without material adverse effect on the future financial position or results of activities.

**Note 13—Transfer of net assets to affiliated organization**

During the eighteen-month period ended June 30, 2014 CHE restructured SJHS and its related organizations. As part of that restructuring, \$3,198,516 of unrestricted and \$3,368,680 of permanently restricted funds that were previously reported in the combined financial statements of SJMCS were transferred to Saint Joseph's Mercy Foundation, Inc.

**Note 14—Subsequent events**

SJMCS evaluated subsequent events through March 20, 2015, the date the combined financial statements were available to be issued.

Effective May 1, 2013, CHE entered into a merger with Trinity Health, a multi-institutional health system. The newly formed health system is now SJMCS' parent company. Based on the CHE restructuring of SJHS and its related organization's the bylaws of SJMCS, MSC and MSD were restated to reflect the new governance and operating structures. Effective July 1, 2014 the operations of MSC and MSD will no longer be combined with the operations of SJMCS and those entities will be reported as controlled entities of SJHS.

Effective July 1, 2014, SJMCS began doing business under the name of Mercy Care Services.

On January 9, 2015, SJHS purchased land that will house a new SJMCS Clinic that will be called Mercy Care Chamblee.

## **COMPLIANCE REPORTS**

**SAINT JOSEPH'S MERCY CARE SERVICES, INC.**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS**

*EIGHTEEN-MONTH PERIOD ENDED JUNE 30, 2014*

<u>Federal Grantor/Program</u>	<u>CFDA Number</u>	<u>Grant ID Number</u>	<u>Expenditures</u>
<b>U.S. Department of Housing and Urban Development:</b>			
<i>Direct Programs:</i>			
Supportive Housing Program	14.235	GA0024L4B4001205	\$ 53,263
<i>Pass Through from City of Atlanta:</i>			
Housing Opportunities for Persons with AIDS	14.241	250131963	352,314
<b>Total U.S. Department of Housing and Urban Development</b>			<u>405,577</u>
<b>U.S. Department of Labor:</b>			
<i>Pass Through from Georgia Department of Human Resources:</i>			
Senior Community Service Employment Program	17.235	131616224	778,418
WIA Adult Program	17.258	10921607	44,507
<b>Total U.S. Department of Labor</b>			<u>822,925</u>
<b>U.S. Department of Health and Human Services:</b>			
<i>Direct Programs:</i>			
HIV Prevention Activities_Non-Governmental Organization Based	93.939	U65 PS002210-2	308,675
HIV Prevention Activities_Non-Governmental Organization Based	93.939	U65 PS002210-3	170,272
Outpatient Early Intervention Services with Respect to HIV Disease	93.918	6H76HA00090-22	365,434
Outpatient Early Intervention Services with Respect to HIV Disease	93.918	6H76HA00090-21	691,198
Community Health Centers	93.224	5H80CS00022-11	343,041
Community Health Centers	93.224	2H80CS00022-12	441,062
Community Health Centers	93.224	5H80C500022	333,932
Community Health Centers	93.224	5H80C500022-09	1,854,799
Community Health Centers	93.224	5H80C500022-09	2,057,990
Community Health Centers	92.224	6H80CS00022	98,565
Community Health Centers	93.224	6H80CS00022	44,304
			<u>6,709,272</u>
<i>Pass Through from State of Georgia Department of Human Resources:</i>			
National Family Caregiver Support Program, Title III, Part E of the Older Americans Act	93.052	42700-373-0000005018	151,886
Aging Title III, Part E of the Older Americans Act	93.052	42700-373-0000005018	56,490
			<u>208,376</u>
<i>Pass Through from Georgia Association for Primary Health Care:</i>			
Cooperative Agreements for State-Based Comprehensive Breast and Cervical Cancer Early Detection Programs	93.919		81,141
	93.919		123,425
			<u>204,566</u>
<i>Pass Through from Fulton County Board of Commissioners:</i>			
Fulton County Health and Wellness - HIP	93.939	1U62PS003679-03	5,491
HIV Emergency Relief Project Grants	93.914	118-14SC88878B-TR	587,286
HIV Emergency Relief Project Grants	93.914	118-12SC84649B-TR	300,340
HIV Emergency Relief Project Grants	93.914	118-14 SC93991B-TR	117,275
			<u>1,010,392</u>
<i>Pass Through from Hope Atlanta</i>			
Supportive Services for Veterans Family	64.033		56,160
			<u>56,160</u>
<b>Total U.S. Department of Health and Human Services</b>			<u>8,188,766</u>
<b>Total Federal Expenditures</b>			<u>\$ 9,417,268</u>
<b>State Grantor/Program</b>			
<b>State of Georgia Department of Community Health</b>			
Healthcare Services to Homeless Individuals in the City of Atlanta	N/A	11008G	\$ 90,332
Healthcare Services to Homeless Individuals in the City of Atlanta	N/A	11008G	168,989
			<u>259,321</u>
<b>State of Georgia Department of Human Resources:</b>			
Mental Health, Developmental Disabilities and Addictive Diseases	N/A	441-93-1133041	164,001
Mental Health, Developmental Disabilities and Addictive Diseases	N/A	441-93-123053	332,000
DBHHD Case Management		441-93-1133041	14,211
Dept of Public Health		40500-0044-13130926	11,000
DAS/NWGRC AAA Enhanced Options Counseling	N/A	131616224	44,154
Community Based Services (CBS)	N/A	131616224	9,480
Alzheimer Community Based Svcs	N/A	131616224	49,036
Alzheimer State Funds	N/A	131616224	186,038
			<u>809,920</u>
<b>Total State Expenditures</b>			<u>\$ 1,069,241</u>

## **SAINT JOSEPH'S MERCY CARE SERVICES, INC.**

### **NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS**

*EIGHTEEN-MONTH PERIOD ENDED JUNE 30, 2014*

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#### **Note 1—Basis of presentation**

The accompanying Schedule of Expenditures of Federal and State Awards includes the federal and state contract activity of SJMCS for the eighteen-month period ended June 30, 2014, and is presented based on accounting principles generally accepted in the United States of America. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

#### **Note 2—Summary of significant accounting policies**

The Schedule of Expenditures of Federal and State Awards is prepared on the accrual basis of accounting.

#### **Note 3—Contingencies**

These Federal and State programs are subject to financial and compliance audits by grantor agencies which, if instances of material noncompliance are found, may result in disallowed expenditures and affect SJMCS' continued participation in specific programs. The amount, if any, of expenditures which may be disallowed by the grantor agencies cannot be determined at this time, although SJMCS expects such amounts, if any, to be immaterial.

#### **Note 4—Facilities and administrative costs**

Expenditures consist of direct costs and indirect costs. SJMCS has a provisional facilities administrative rate for federal awards which is effective from January 1, 2010 until amended. The rate is 38% of modified total direct costs for all federal programs.

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

The Board of Directors  
Saint Joseph's Mercy Care Services, Inc.  
Atlanta, Georgia

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 Saint Joseph's Mercy Care Services, Inc. ("SJMCS"), which comprise the combined statement of financial position as of June 30, 2014, and the related combined statements of activities, and cash flows for the eighteen-month period ended June 30, 2014, and the related notes to the financial statements, and have issued our report thereon dated March 20, 2015.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered SJMCS' 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 combined financial statements, but not for the purpose of expressing an opinion on the effectiveness of SJMCS' internal control. Accordingly, we do not express an opinion on the effectiveness of SJMCS' 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 SJMCS' combined financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether SJMCS' combined 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 SJMCS' internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering SJMCS' internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Cherry Bekaert LLP*

Atlanta, Georgia  
March 20, 2015

**Report on Compliance with Requirements That Could  
Have a Direct and Material Effect on Each Major  
Program and on Internal Control over Compliance  
in Accordance with OMB Circular A-133**

The Board of Directors  
Saint Joseph's Mercy Care Services, Inc.  
Atlanta, Georgia

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

We have audited Saint Joseph's Mercy Care Services, Inc.'s ("SJMCS") compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the eighteen-month period ended June 30, 2014. SJMCS' 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 SJMCS' 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 SJMCS' 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 SJMCS' compliance.

**Opinion on Each Major Federal Program**

In our opinion, SJMCS 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 eighteen-month period ended June 30, 2014.

## Report on Internal Control Over Compliance

Management of SJMCS 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 SJMCS' 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 SJMCS' 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.

*Cherry Bekaert LLP*

Atlanta, Georgia  
March 20, 2015

**SAINT JOSEPH'S MERCY CARE SERVICES, INC.**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

*EIGHTEEN-MONTH PERIOD ENDED JUNE 30, 2014*

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**Summary of the Auditor's Results**

1. The auditor's report expressed an unmodified opinion on the combined financial statements of SJMCS.
2. Internal control over financial reporting:  
Material weaknesses identified: **No**  
Significant deficiencies identified that are not considered to be material weaknesses: **No**
3. No instances of noncompliance material to the combined financial statements of SJMCS, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. Internal control over major programs:  
Material weaknesses identified: **No**  
Significant deficiencies identified that are not considered to be material weaknesses: **None reported**
5. The auditor's report on compliance for the major federal award program for SJMCS expressed an unmodified opinion on its major programs.
6. The programs tested as major programs were:  
  
CFDA# 14.241 Housing Opportunities for Persons with AIDS  
CFDA# 17.235 Senior Community Service Employment Program  
CFDA# 93.918 Outpatient Early Intervention Services with Respect to HIV Disease  
CFDA# 93.939 HIV Prevention Activities
7. The dollar threshold for Type A programs for SJMCS was \$300,000.
8. SJMCS qualified as a low-risk auditee.

Findings in Relation to the Audit of the Combined Financial Statements

None

Federal Awards Findings and Questioned Costs

None

**SUPPLEMENTARY COMBINING STATEMENTS**

**SAINT JOSEPH'S MERCY CARE SERVICES, INC.**  
**COMBINING STATEMENT OF FINANCIAL POSITION**

*JUNE 30, 2014*

	Saint Joseph's Mercy Care Services, Inc.	Mercy Senior Care, Inc.	Mercy Services Downtown, Inc.	Combined Total
<b>ASSETS</b>				
Current Assets:				
Cash and cash equivalents	\$ 2,175,721	\$ 163,861	\$ 72,847	\$ 2,412,429
Patient accounts receivable, net	55,551	20,708	-	76,259
Grants receivable	260,443	126,770	-	387,213
Other receivables	201,068	29,865	-	230,933
Due to affiliates	273,950	837	-	274,787
Other assets	163,835	3,814	-	167,649
Total Current Assets	3,130,568	345,855	72,847	3,549,270
Property and equipment, net	3,500,403	1,048,641	6,057,966	10,607,010
Interest in net assets of Saint Joseph's Mercy Foundation, Inc.	9,862,870	-	-	9,862,870
<b>Total Assets</b>	<b>\$ 16,493,841</b>	<b>\$ 1,394,496</b>	<b>\$ 6,130,813</b>	<b>\$ 24,019,150</b>
<b>LIABILITIES AND NET ASSETS (DEFICIT)</b>				
Current Liabilities:				
Accounts payable	\$ 573,781	\$ 15,775	\$ 2,240	\$ 591,796
Salaries and benefits payable	884,584	109,425	-	994,009
Due to affiliates	1,222,173	397,432	3,232	1,622,837
Other current liabilities	791,188	11,335	-	802,523
Total Current Liabilities	3,471,726	533,967	5,472	4,011,165
Long-term debt	-	-	8,000,000	8,000,000
Total Liabilities	3,471,726	533,967	8,005,472	12,011,165
Net Assets (Deficit):				
Unrestricted	3,064,621	860,529	(1,874,659)	2,050,491
Temporarily restricted	9,957,494	-	-	9,957,494
<b>Total Net Assets (Deficit)</b>	<b>13,022,115</b>	<b>860,529</b>	<b>(1,874,659)</b>	<b>12,007,985</b>
<b>Total Liabilities and Net Assets (Deficit)</b>	<b>\$ 16,493,841</b>	<b>\$ 1,394,496</b>	<b>\$ 6,130,813</b>	<b>\$ 24,019,150</b>

**SAINT JOSEPH'S MERCY CARE SERVICES, INC.**  
**COMBINING STATEMENT OF ACTIVITIES**

*EIGHTEEN-MONTH PERIOD ENDED JUNE 30, 2014*

	<b>Saint Joseph's Mercy Care Services, Inc.</b>	<b>Mercy Senior Care, Inc.</b>	<b>Mercy Services Downtown, Inc.</b>	<b>Combined Total</b>
<b>CHANGES IN UNRESTRICTED NET ASSETS:</b>				
Revenues, gains, and other support:				
Grant income	\$ 10,464,731	\$ 1,365,785	\$ -	\$ 11,830,516
Support received from Saint Joseph's Health System, Inc.	9,031,368	48,660	11	9,080,039
Equity transfer to Mercy Care from Mercy Services Downtown	720,000	-	(720,000)	-
Contributions	1,186,752	177,834	-	1,364,586
Contributed goods and services	320,061	-	-	320,061
Investment income	1,228,573	-	-	1,228,573
Net patient service revenue	1,310,342	157,583	-	1,467,925
Loss on sale of assets	(4,956)	5,831	-	875
Other income	102,661	9,195	120,000	231,856
	<u>24,359,532</u>	<u>1,764,888</u>	<u>(599,989)</u>	<u>25,524,431</u>
Net assets released from restrictions	158,123	-	-	158,123
Total revenues, gains, and other support	<u>24,517,655</u>	<u>1,764,888</u>	<u>(599,989)</u>	<u>25,682,554</u>
Expenses:				
Salaries and wages	12,946,200	1,329,854	-	14,276,054
Employee benefits and payroll taxes	2,900,541	169,499	-	3,070,040
Medical supplies	326,542	9,150	-	335,692
Drugs	482,156	-	-	482,156
Professional fees and purchased services	1,873,789	57,086	5,440	1,936,315
Depreciation	310,967	73,832	406,801	791,600
Taxes and insurance	233,451	17,647	25	251,123
Rent expense	174,478	-	-	174,478
Other supplies and expenses	3,896,944	346,727	120,329	4,364,000
Provision for bad debts	93,203	-	-	93,203
Total expenses	<u>23,238,271</u>	<u>2,003,795</u>	<u>532,595</u>	<u>25,774,661</u>
Deficit of revenues over expenses	1,279,384	(238,907)	(1,132,584)	(92,107)
Transfer of net assets to affiliated organization	<u>(3,198,516)</u>	<u>-</u>	<u>-</u>	<u>(3,198,516)</u>
Change in unrestricted net assets	<u>(1,919,132)</u>	<u>(238,907)</u>	<u>(1,132,584)</u>	<u>(3,290,623)</u>
<b>CHANGES IN TEMPORARILY RESTRICTED NET ASSETS:</b>				
Contributions	158,506	-	-	158,506
Net assets in related affiliates	3,329,122	-	-	3,329,122
Net assets released from restrictions	<u>(158,123)</u>	<u>-</u>	<u>-</u>	<u>(158,123)</u>
Change in temporarily restricted net assets	<u>3,329,505</u>	<u>-</u>	<u>-</u>	<u>3,329,505</u>
<b>CHANGES IN PERMANENTLY RESTRICTED NET ASSETS:</b>				
Transfer of net assets to affiliated organization	<u>(3,368,680)</u>	<u>-</u>	<u>-</u>	<u>(3,368,680)</u>
Change in permanently restricted net assets	<u>(3,368,680)</u>	<u>-</u>	<u>-</u>	<u>(3,368,680)</u>
Change in net assets	(1,958,307)	(238,907)	(1,132,584)	(3,329,798)
Net assets, beginning of period	14,980,422	1,099,436	(742,075)	15,337,783
Net assets, end of period	<u>\$ 13,022,115</u>	<u>\$ 860,529</u>	<u>\$ (1,874,659)</u>	<u>\$ 12,007,985</u>