Unity Health Care, Inc.

Financial Statements and Compliance Reports as of and for the
Year Ended December 31, 2014 and 2013, and
Independent Auditors' Report

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DIXON HUGHES GOODMAN LLP

Unity Health Care, Inc.

Contents

DIXON HUGHES GOODMAN LLP

Independent Auditors' Report

Board of Directors
Unity Health Care, Inc.

We have audited the accompanying balance sheets of ***Unity Health Care, Inc.*** (the "Center") as of December 31, 2014 and 2013, and the related statements of operations and changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Center as of December 31, 2014 and 2013, and the results of its operations and changes in its net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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Other Matters

Our audits were 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 the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 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 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.

The accompanying financial statements are those of ***Unity Health Care, Inc.*** (parent company), and are not those of the primary reporting entity. The consolidated financial statements of ***Unity Health Care, Inc. and Subsidiaries*** have been issued as the financial statements of the primary reporting entity.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 17, 2015, on our consideration of the Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 and opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Center's internal control over financial reporting or compliance.

Dixon Hughes Goodman LLP

Tysons, Virginia
June 17, 2015

Unity Health Care, Inc.

Balance Sheets

December 31,	2014	2013
Assets		
Current assets		
Cash and cash equivalents	$ 4,270,246	$ 7,396,949
Patient services receivable, net	13,783,617	14,325,489
Contracts receivable	2,952,933	3,228,034
Prepaid expenses and other current assets	1,712,105	1,345,141
Total current assets	22,718,901	26,295,613
Property and equipment		
Land	2,723,572	2,723,572
Buildings	41,718,075	41,162,846
Leasehold improvements	21,117	21,117
Furniture and equipment	11,148,036	10,696,420
Vehicles	574,539	574,539
Construction-in-progress	500,198	333,367
	56,685,537	55,511,861
Less - accumulated depreciation and amortization	16,411,127	13,601,333
Net property and equipment	40,274,410	41,910,528
Loan receivable	18,267,350	18,267,350
Other assets	800,691	740,722
	$ 82,061,352	$ 87,214,213
Liabilities and Net Assets		
Current liabilities		
Medical claims payable	$ 602,223	$ 688,339
Accounts payable and accrued expenses	4,110,129	3,113,862
Accrued compensation and related benefits	4,630,931	3,723,167
Deferred revenue	196,347	-
Current maturities of long-term debt	589,032	825,451
Total current liabilities	10,128,662	8,350,819
Long-term debt - less current maturities	9,428,307	9,963,510
Interest rate swap liability	308,754	-
Other long-term liabilities	862,861	762,932
Total liabilities	20,728,584	19,077,261
Net assets		
Unrestricted net assets - general	61,312,768	67,587,107
Temporarily restricted net assets	20,000	549,845
Total net assets	61,332,768	68,136,952
	$ 82,061,352	$ 87,214,213

The accompanying notes are an integral part of these financial statements.

Unity Health Care, Inc.

Statements of Operations and Changes in Net Assets

Years Ended December 31,	2014	2013
Unrestricted revenue		
Patient service revenue (net of contractual allowances and discounts)	$ 46,841,083	$ 48,616,585
Provision for bad debts	(362,998)	(1,328,866)
Net patient service revenue	46,478,085	47,287,719
DHHS grants	11,554,346	11,649,089
Contract services	8,464,000	10,192,503
Department of Corrections contract	23,600,580	23,600,580
Contributions	2,351,215	2,772,445
Other	2,614,130	2,448,172
Total unrestricted revenue	95,062,356	97,950,508
Expenses		
Salaries and wages	62,049,823	60,173,144
Consultants and contractual fees	5,781,026	6,122,666
Fringe benefits	10,961,716	11,421,093
Occupancy and utilities	4,683,819	4,055,371
Consumable supplies	3,371,597	3,182,632
Telephone	1,678,463	1,662,030
Depreciation and amortization	2,884,785	2,918,090
Laboratory and radiology	5,071,145	4,252,520
Information technology	776,679	851,066
Equipment rental, repairs and maintenance	677,990	737,464
Professional fees	886,051	694,310
Miscellaneous	535,047	407,800
Insurance	559,222	518,292
Printing, postage and publications	270,273	235,190
Staff training and education	325,823	415,850
Travel, conferences and meetings	182,904	208,278
Dues and subscriptions	251,704	188,469
Donated services and materials	49,102	80,899
Interest	475,108	422,107
Health promotion	51,119	36,841
Total expenses	101,523,396	98,584,112
Results of operations	(6,461,040)	(633,604)
Unrealized loss on interest rate swap	(308,754)	-
Excess expenses over revenue	(6,769,794)	(633,604)
Contribution for purchase of property and equipment	495,455	709,371
Change in unrestricted net assets	$ (6,274,339)	$ 75,767

The accompanying notes are an integral part of these financial statements.

Unity Health Care, Inc.

Statements of Changes in Net Assets

Year Ended December 31,	2014	2013
Unrestricted net assets		
Excess expenses over revenue	$ (6,769,794)	$ (633,604)
Other changes in unrestricted net assets	495,455	709,371
Change in unrestricted net assets	(6,274,339)	75,767
Temporarily restricted net assets		
Temporarily restricted contributions	20,000	549,845
Net assets released from restriction	(549,845)	(578,427)
Change in temporarily restricted net assets	(529,845)	(28,582)
Change in net assets	(6,804,184)	47,185
Net assets - beginning of year	68,136,952	68,089,767
Net assets - end of year	$ 61,332,768	$ 68,136,952

The accompanying notes are an integral part of these financial statements.

Unity Health Care, Inc.

Statements of Cash Flows

Years Ended December 31,	2014	2013
Cash flows from operating activities		
Change in net assets	$ (6,804,184)	$ 47,185
Adjustments to reconcile changes in net assets to net cash from		
Depreciation	2,809,794	2,832,182
Amortization of deferred finance charges	74,991	85,908
Provision for bad debts	362,998	1,328,866
Grants/contributions for purchase of property and equipment	495,455	709,371
Unrealized loss on interest rate swap	308,754	-
Change in:		
Patient services receivable	178,874	(163,024)
Contracts receivable	275,101	765,803
Prepaid expenses and other current assets	(366,964)	(630,407)
Other assets	(134,960)	(106,984)
Medical claims payable	(86,116)	(521,970)
Accounts payable and accrued expenses	996,267	777,888
Accrued compensation and related benefits	907,764	(594,415)
Other long-term liabilities	99,929	108,955
Deferred revenue	196,347	-
Net cash from operating activities	(685,950)	4,639,358
Cash flows from investing activities		
Purchase of property and equipment	(1,173,676)	(1,368,690)
Net cash from investing activities	(1,173,676)	(1,368,690)
Cash flows from financing activities		
Principal payments of long-term debt	(771,622)	(1,065,203)
Cash received for purchase of property and equipment	(495,455)	(709,371)
Net cash from financing activities	(1,267,077)	(1,774,574)
Change in cash and cash equivalents	(3,126,703)	1,496,094
Cash and cash equivalents - beginning of year	7,396,949	5,900,855
Cash and cash equivalents - end of year	$ 4,270,246	$ 7,396,949
Supplemental disclosure of cash flow information		
Cash paid during the year for interest, including capitalized interest	$ 298,234	$ 407,591

The accompanying notes are an integral part of these financial statements.

1. Organization and Nature of Business

Unity Health Care, Inc. (the Center) was incorporated as a not-for-profit healthcare agency dedicated to providing primary healthcare, disease prevention, health promotion, mental health, outreach, HIV, and case management services to the homeless and medically indigent of Washington, D.C. The Center's mission is to provide accessible, quality healthcare in a cost-effective manner through a coordinated service delivery. The Center's role is to help empower clients to improve their lives regardless of financial circumstances, ethnic background, race, creed or color.

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.

The Center was awarded a fixed price contract to provide or arrange for certain inpatient hospital and specialty services for persons in the custody of the District of Columbia Department of Corrections (DOC). The DOC contract was effective October 16, 2006 and has been extended through June 30, 2015 (see Note 17).

The accompanying financial statements are those of ***Unity Health Care, Inc.*** only and are not those of the primary reporting entity. The consolidated financial statements of ***Unity Health Care, Inc. and Subsidiaries*** have been issued as the financial statements of the primary reporting entity.

2. Summary of Significant Accounting Policies

Basis of Presentation

The Center classifies its net assets into three categories, which are unrestricted, temporarily restricted and permanently restricted. Unrestricted net assets are reflective of revenues and expenses associated with the principal operating activities of the Center and are not subject to donor-imposed stipulations.

Temporarily restricted net assets are subject to donor-imposed stipulations that may or will be met either by actions of the Center and/or the passage of time. When a donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and are reported in the statement of operations and changes in net assets as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the financial statements. Temporarily restricted net assets are restricted to provide specific services for specific sites.

Permanently restricted net assets are subject to donor-imposed stipulations that must be maintained permanently by the Center. There were no permanently restricted net assets at December 31, 2014 and 2013.

Results of Operations

The statement of operations and changes in net assets includes the excess of expenses over revenue and support that represent the results of operations and all other activities. Changes in unrestricted net assets which are excluded from excess of expenses over revenue and support, consistent with industry practice, includes contributions of long-lived assets (including contributed assets which by donor restriction are to be used for the purpose of acquiring such assets).

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

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

Contracts Receivable

Contracts receivable reflect amounts earned but not yet collected which the Center expects to realize.

Patient Services Receivable

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

Accounts receivables due directly from patients are carried at the original charge for the service provided less discounts provided under the Center's charity care policy, less amounts covered by third-party payers and less an estimated allowance for doubtful accounts. Management determines the allowance for doubtful accounts by identifying troubled accounts and by historical experience applied to an aging of accounts. The Center considers accounts pay due when they are outstanding beyond sixty days with no payment. The Center generally does not charge interest on past due accounts. Patient accounts receivables are written off as bad debt expense when deemed uncollectible. Recoveries of patient accounts receivables previously written off are recorded as a reduction of bad debt expense when received. The allowance for doubtful accounts was $5,044,324 and $8,890,588 at December 31, 2014 and 2013. The Affordable Care Act provided coverage for much of the Corporation's customer base that was previously self-pay customers. As such, the allowance for doubtful accounts decreased accordingly.

Property and Equipment

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

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

Medical Claims Payable

Medical claims payable include estimates of payments to be made on claims reported and estimates of healthcare services rendered, as well as claim adjustment expenses, as of December 31, 2014 and 2013 and is based on past experience. Medical claims payable estimates are reviewed and adjusted periodically and, as adjustments are made, differences are included in current operations.

Patient Services Revenue

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

The Center provides care to certain patients under Medicaid and Medicare payment arrangements. Laws and regulations governing the Medicaid and Medicare programs are complex and subject to interpretation. Compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action. Self-pay revenue is recorded based on published charges less charitable allowances. Patient service revenue, net of contractual allowances and discounts, is recognized from these major payer sources for the year ended December 31, 2014 and 2013:

	2014	2013
Patient service revenue (net of contractual allowances and discounts)		
Third-party payers	$ 46,092,944	$ 47,031,666
Self-pay	748,139	1,584,919
	$ 46,841,083	$ 48,616,585

Grant Revenue

Grants are recognized as revenue when earned. Expense reimbursement based grants are recognized as revenue when the qualifying expenses have been incurred and all other grant requirements have been met. Grant funds received prior to the incurrence of the qualifying expenses are deferred. At December 31, 2014 and 2013, the Center has received grants from governmental entities that have not been recorded in these financial statements as they have not been earned. These grants require the Center to provide certain healthcare services during specified periods. If such services are not provided, the governmental entities are not obligated to expend the funds allotted under the grants. Grants awarded for the acquisition of long-lived assets are reported as unrestricted nonoperating support during the fiscal year in which the assets are acquired.

Contract Revenue

Contract revenue is recognized as revenue when the related services are provided.

Contributions

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

Meaningful Use

The Corporation recognizes revenue for incentives earned under the HITECH Meaningful Use Electronic Health Records (EHR) Medicare program in the period in which it is reasonably assured that it will comply with the applicable EHR meaningful use requirements. Incentive revenues are recognized ratably over the applicable meaningful use demonstration period. Incentive payments received under the Medicare program include a discharge-related portion, which is calculated by Centers for Medicare & Medicaid Services (CMS) based on the Corporation's most recently filed cost report. Such amounts are subject to adjustment at the time of settling the 12-month cost report for the Corporation's fiscal year that begins after the beginning of the payment year. Changes to recorded estimates are recognized in the period known. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The EHR funding received is subject to CMS audit. The results of that audit and settlement could result in a potential payback in future periods.

The Corporation achieved compliance with the Year 2 and 1 meaningful use requirements under the Medicare and Medicaid programs during 2014 and 2013, respectively. During the years 2014 and 2013, the Corporation recognized incentive payments totaling $1,198,500 and $1,784,855, respectively, in other operating revenue in the accompanying consolidated financial statements.

Tax Status

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

The Center files a Form 990 (Return of Organization Exempt from Income Taxes) with the Internal Revenue Service. Tax positions taken on the Form 990 are tax positions that may be subject to uncertainty regarding the merits of the position taken or the amount of the position that would ultimately be sustained. Examples of tax positions common to tax-exempt organizations are the tax-exempt status of the entity and various positions relative to potential sources of unrelated business taxable income.

A tax-exempt organization that has more than $1,000 of gross income from any unrelated business must file the Internal Revenue Service Form 990-T. Although management has concluded that the Center did not incur any unrelated business income during its 2013 tax year, the Center has filed the Form 990-T for its 2013 tax year. The Center intends to file a Form 990-T for its 2014 tax year prior to the final extended deadline of November 15, 2015.

The benefit of a tax position is recognized in the financial statements in the period during which, based on available evidence, management believes it is more likely than not the tax position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions are not offset or aggregated with other positions. Tax positions that meet the "more likely than not" recognition threshold are measured as the largest amount of tax benefit that is more than 50% likely to be realized on settlement with the applicable taxing authority. The portion of the benefits associated with the tax positions taken that exceeds the amount measured as described above is reflected as a liability for unrecognized tax benefits in the balance sheet along with any associated interest and penalties that would be payable to the taxing authorities upon examination. At December 31, 2014, there were no unrecognized tax benefits identified or recorded as liabilities.

Recent Accounting Pronouncements

In May 2014, the FASB issued ASU 2014-9, *Revenue from Contracts with Customers*, which provides a principles-based standard for recognizing revenue through a five-step process. This standard is effective with annual reporting periods beginning after December 15, 2018 for nonpublic organizations (however, FASB has recently proposed an additional implementation delay). In April 2015, the FASB issued ASU 2015-3, *Simplifying the Presentation of Debt Issuance Costs*, which requires debt issuance costs to be presented in the balance sheet as a direct deduction from the carrying amount of the debt associated. This standard is effective with annual reporting periods beginning after December 15, 2016. Management is currently evaluating the effects the adoption of these standards will have on the financial statements and disclosures. Accordingly, the impact upon adoption of such standards is unknown.

Subsequent Events

In preparing these financial statements, the Center has evaluated events and transactions for potential recognition or disclosure through June 17, 2015, the date the financial statements were available to be issued.

3. Net Patient Services Revenue

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

Medicare: The Center is paid on patient care services rendered to Medicare program beneficiaries primarily under contractual agreements with the Centers for Medicare and Medicaid Services and with third-party Medicare Advantage plans. The majority of the Center's Medicare reimbursement is paid on a per encounter basis, according to a cost-based reimbursement system, with a cap for health centers in urban communities. For the year ended December 31, 2014 and 2013, the Center recognized approximately 9% of net patient services revenue from services provided to Medicare patients.

Medicaid

The Center is paid for patient services rendered to Medicaid program beneficiaries primarily under contractual agreements with third-party Medicaid managed care organizations, with payments based on a fee scale applicable to the service provided. Additional wraparound reimbursement, paid by the District of Columbia Department of Healthcare Finance, is paid on a per encounter basis to result in a net per visit payment equal to a prospectively set rate adjusted annually for inflation. For the year ended December 31, 2014 and 2013, the Center recognized approximately 79% and 78%, respectively, of net patient services revenue from services provided to Medicaid patients.

Other Third Party

The Center has also entered into reimbursement agreements with certain non-Medicare and non-Medicaid commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment under these agreements includes discounts from established charges and prospectively determined per visit rates. For the years ended December 31, 2014 and 2013, the Center recognized approximately 10% of net patient services revenue from services provided to these other third-party payers.

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

4. Charity Care and Social Accountability

The Center is a not-for-profit healthcare provider established to meet the healthcare needs of a largely medically underserved population. The Center provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than 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 maintains records to identify and monitor the level of charity care it provides. The amount of charity care provided based on the charges of the Center during the years ended December 31, 2014 and 2013 was approximately $4,900,000 and $6,200,000, respectively. The costs associated with this care were approximately $5,880,000 and $6,400,000 in 2014 and 2013, respectively. The cost of uncompensated care includes both direct and indirect costs, and is calculated based on the ratio of cost to charges.

5. Concentrations of Credit Risk

The mix of net patient accounts receivable from patient services and third-party payers is as follows:

	2014	2013
Medicaid and Medicaid managed care	85%	84%
Other third-party payers	7%	8%
Medicare	7%	7%
Self-pay	1%	1%
	100%	100%

6. Contracts Receivable

Contracts receivable consist of the following at December 31:

	2014	2013
Department of Corrections	$ 1,966,718	$ 1,966,718
Alliance Contract	-	311,414
Women, Infants and Children	332,231	320,658
Ryan White Title I	173,339	278,148
Ryan White Title II	-	38,380
Other	480,645	312,719
	$ 2,952,933	$ 3,228,034

7. Long-Term Debt

Long-term debt consists of the following:

	2014	2013
The Center entered into a loan payable with a face amount of $2,000,000 on June 19, 2009. The loan required monthly payments of principal and interest of $37,037, which included interest at 4.25%. The note matured on June 5, 2014. The loan was collateralized by a blanket lien on patient accounts receivable and certain equipment.	$ -	$ 174,586
The Center entered into a loan payable with a face amount of up to $8,000,000 on February 1, 2010. The loan required monthly payments of principal and interest. Interest was payable at the London Interbank Offered Rate (LIBOR) plus 2.5%, with a floor of 3.5% and a ceiling of 9%. The interest rate was 3.5% at December 31, 2014 and 2013. The note matures on February 15, 2020. During 2014, the Center entered into an interest rate swap agreement with the bank to fix the interest rate to 2.65% (see Note 8). The loan was collateralized by the deed of trust on the Upper Cardozo Property located at 3020 14th Street, NW, Washington, DC.	6,667,104	6,869,135

The Center entered into a loan payable with a face amount of $4,000,000 on December 17, 2012. The loan required monthly payments of principal and interest. Interest was payable at the LIBOR plus 2.5%, with a floor of 3.5%. The interest rate was 3.5% at December 31, 2014 and 2013. The note matures on February 17, 2022. During 2014, the Center entered into an interest rate swap agreement with the bank to fix the interest rate to 2.7%. The loan was collateralized by the deed of trust on the Upper Cardozo property located at 3020 14th Street, NW, Washington, DC and revenues	3,326,100	3,660,738
Capital lease obligation	24,135	84,502
	10,017,339	10,788,961
Less – current maturities	589,032	825,451
Long-term debt less current maturities	$ 9,428,307	$ 9,963,510

The aggregate amounts of principal payments on long-term debt during the years following December 31, 2014 are as follows:

2015	$ 589,032
2016	561,675
2017	589,719
2018	619,163
2019	641,780
Thereafter	7,015,970
	$ 10,017,339

8. Interest Rate Swap Agreements

In 2014, the Center entered into two interest rate swap agreements with a commercial bank, effective March 24, 2014, which synthetically fixes the interest rates on the associated debt at 2.65% and 2.7% (see Note 7). The value of the swap agreements as of December 31, 2014, determined by the bank using calculated mathematical approximations of market values, not actual market prices, was $(308,754) and is reported as a noncurrent liability in the accompanying balance sheet. The interest rate swap agreements do not qualify for hedge accounting; therefore, the changes in the fair value have been recorded in the performance indicator in the accompanying consolidated statements of operations and changes in net assets.

9. Line of Credit

The Center has a line of credit with a face amount of $5,000,000, which expires on August 1, 2015. The line of credit is secured by a blanket lien on patient accounts receivable and certain equipment. This agreement requires interest to be charged at 4.25% per annum. There was no outstanding balance as of December 31, 2014 and 2013.

10. Functional Expenses

Expenses were incurred and allocated as follows:

	2014	2013
Program services	$ 80,563,419	$ 75,138,539
Supporting services	20,959,977	23,445,573
	$ 101,523,396	$ 98,584,112

11. Contract Services

For the year ended December 31, 2014 and 2013, contract services revenue consists of the following:

	2014	2013
Alliance Contract	$ 2,132,403	$ 2,739,039
Alliance Pharmacy Program	-	1,800,000
Women, Infants and Children	1,300,910	1,182,689
Ryan White Title I	1,104,496	1,061,613
Ryan White Title II	-	379,993
Training Program	506,440	-
Ballou High School	361,113	355,941
Woodson High School	436,408	313,574
Supportive Housing Program	197,908	199,181
CDC Grant	90,926	124,752
Tuberculosis Program	-	118,846
Pathway to Housing	131,101	119,584
State Grant	-	76,424
Other	2,202,295	1,720,867
	$ 8,464,000	$ 10,192,503

12. Retirement Plans

The Center has a defined contribution deferred annuity plan (the "Plan") covering all regular full-time employees. The Center contributes to the Plan up to 2% of an employee's base salary. Contributions to the Plan amounted to $1,036,745 and $1,262,988 for the years ended December 31, 2014 and 2013.

13. Deferred Compensation

The Center established an Executive 457(b) Retirement Plan (the "457 Plan"). The 457 Plan is a deferred compensation plan under Section 457(b) of the Internal Revenue Code. The 457 Plan provides deferred compensation benefits for certain management and highly compensated employees. Deferred compensation amounted to $479,624 and $339,215 for the year ended December 31, 2014 and 2013. Assets and liabilities related to the 457 Plan are included in other assets and in other long-term liabilities, respectively, on the balance sheet.

14. Investment in Subsidiaries

Health Right, Inc. (HRI), a for-profit subsidiary, was incorporated on November 1, 1996 under the applicable provisions of the District of Columbia's Business Corporation Act. HRI was organized to engage in the business of providing managed healthcare services under the laws of the District of Columbia and any other jurisdictions in which it shall qualify to do business as a managed care organization or similar healthcare entity.

The District of Columbia Department of Health Care Finance's (DHCF) contracts with HRI to provide healthcare services for the District's DC Healthy Families (Medicaid) and Alliance populations expired on April 30, 2010. HRI was notified in a letter dated April 1, 2010 of DHCF's intent not to exercise Option Year Two of the contract. The contract with DHCF provided approximately 93% of HRI's revenues.

As a result of the nonrenewal of the DHCF contract, substantial doubt existed about HRI's ability to continue as a going concern and all services were terminated.

Unity-Parkside Property, Inc. (Parkside) is a District of Columbia non-profit corporation established during August 2012 to participate in the Internal Revenue Service's New Market Tax Credit program to finance construction of a new health care facility for the community. Parkside is controlled by the Center.

15. Operating Leases

The Center leases facility space under noncancelable operating leases. Aggregate space costs for the year ended December 31, 2014 and 2013 amounted to $2,930,038 and $2,612,169, respectively, including utilities and other common charges.

Minimum future lease payments under these noncancelable operating leases are as follows:

2015	$ 2,060,201
2016	1,918,712
2017	1,234,946
2018	307,961
2019	-
	$ 5,521,820

16. Information Concerning Parent and Subsidiaries

The Center performs certain management and administrative services on behalf of its subsidiaries without compensation.

17. Commitments and Contingencies

Contracted Services

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

The contract for services with the DOC, which represented approximately 25% of net revenue for 2014 for the Center, extended through June 30, 2015. As of the date of the issuance of the accompanying financial statements, the Corporation is continuing negotiations to re-extend the DOC contract through September 2015. The Center has submitted a proposal to continue this contract to the DOC, and at this time a final determination regarding award of the contract with the Center has not been made by the DOC. Non-renewal of this contract could have a significant impact on future operations of the Center.

Malpractice Risk

The Center is deemed an employee of the federal government for purposes of malpractice protection and is thus covered under the Federal Tort Claims Act (FTCA). The FTCA provides malpractice coverage to eligible Public Health Service supported programs and applies to the Center and its employees while providing services within the scope of employment included under grant-related activities.

The Attorney General, through the U.S. Department of Justice, has the responsibility for the defense of the individual and/or grantee for malpractice cases approved for FTCA coverage.

Regulatory Investigation

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

Litigation

The Center has been named in various litigation claims in the normal course of its operations. Management, after taking into consideration legal counsel's evaluation, is of the opinion that these matters will not have a material adverse effect on the Center's financial statements. Accordingly, no loss provision has been made in the financial statements.

* * * * *

Unity Health Care, 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 Grantor's Number	Federal Expenditures
U.S. Department of Health and Human Services:			
Direct programs:			
Consolidated Health Centers	93.224	N/A	$ 8,826,108
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918	N/A	586,669
Family Planning Services	93.217	N/A	1,657,988
East of the River Health Center Renovation	93.526	N/A	382,943
Passed through District of Columbia Department of Health:			
HIV Emergency Relief Project Grants	93.914	2 H89HA00012-22-00	1,104,496
CDC Routine Testing	93.943	5U62PS003685	90,926
Total U.S. Department of Health and Human Services			12,649,130
U.S. Department of Agriculture:			
Passed through District of Columbia Department of Health:			
Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) (2)	10.557	1DC700700	6,347,357
Total U.S. Department of Agriculture			6,347,357
Total expenditures of federal awards			$ 18,996,487

Notes to this schedule:

CFDA = Catalog of Federal Domestic Assistance
N/A = Not applicable

Notes:

(1) The schedule of expenditures of federal awards includes the federal grant activity of the Center and is presented on the accrual basis of accounting. 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.* Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

(2) Nonmonetary assistance is reported in the schedule at the fair market value of the WIC checks received. The total federal share of food instruments distributed by the Center amounted to $5,046,447, and is included in the schedule of expenditures of federal awards.

DIXON HUGHES GOODMAN LLP

Independent Auditors' 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

Board of Directors
Unity Health Care, Inc.

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of ***Unity Health Care, Inc.*** (the Center) which comprise the balance sheets as of December 31, 2014, and the related statement of operations and changes in net assets and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 17, 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 as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Center's internal control over financial reporting.

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 over financial reporting 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 financial reporting that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, material weaknesses may exist that have not been identified.

DIXON HUGHES GOODMAN LLP

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Center's financial statements are free of 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 organization'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 organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Dixon Hughes Goodman LLP

Tysons, Virginia
June 17, 2015

DIXON HUGHES GOODMAN LLP

Independent Auditors' Report on Compliance with Requirements That Could Have a Direct and Material Effect on each Major Program and Internal Control Over Compliance in Accordance With OMB Circular A-133

Board of Directors
Unity Health Care, Inc.

Report on Compliance for Each Major Federal Program

We have audited ***Unity Health Care, Inc.'s*** (the Center's) compliance with the types of compliance requirements described in the OMB Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of the Center's major federal programs for the year ended 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.

Auditors' 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 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.

DIXON HUGHES GOODMAN LLP

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 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.

Dixon Hughes Goodman LLP

Tysons, Virginia
June 17, 2015

Unity Health Care, Inc.

Schedule of Audit 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	✓ None reported
Significant Deficiency(ies) Identified Not Considered To Be Material Weaknesses?	____ Yes	✓ None reported
Noncompliance Material to Financial Statements Noted?	____ Yes	✓ No

Federal Awards

Internal Control Over Major Programs:		
Material Weakness(es) Identified?	____ Yes	✓ No
Significant Deficiency(ies) Identified Not Considered To Be Material Weaknesses?	____ Yes	✓ None reported
Type of Auditor's Report Issued on Compliance for Major Programs:	Unmodified	
Any Audit Findings Disclosed That Are Required to Be Reported in Accordance with Circular A-133, Section .510(a)?	Yes: ____	No: ✓

Identification of Major Programs:

CFDA Number(s)	PROGRAM TITLE
93.526	U.S. Department of Health and Human Services: East of the River Health Center Renovation
93.224	U.S. Department of Health and Human Services: Consolidated Health Centers

Dollar Threshold Used to Distinguish between Type A and Type B Programs:	$569,895	
Auditee Qualified as Low-Risk Auditee?	✓ Yes	____ No

SECTION II - Financial Statement Findings — No matters were reported

SECTION III - Federal Award Findings And Questioned Costs — No matters were reported