

Zufall Health Center, Inc.

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

December 31, 2014

Zufall Health Center, Inc.

Index

	<u>Page</u>
Independent Auditor's Report	2-3
Statement of Financial Position	4
Statement of Activities and Changes in Net Assets	5
Statement of Functional Expenses	6
Statement of Cash Flows	7
Notes to Financial Statements	8-25
Schedule of Expenditures of Federal and State Awards	26-27
Notes to Schedule of Expenditures of Federal and State Awards	28
Schedules of Disbursements by Grant	29-37
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	38-39
Independent Auditor's Report on Compliance for Each Major Federal and State Program and Report on Internal Control over Compliance Required by OMB Circular A-133 and New Jersey OMB Circular 04-04	40-41
Schedule of Findings and Questioned Costs	42-43
Schedule of Prior Year's Findings	44

Independent Auditor's Report

To the Board of Directors
Zufall Health Center, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Zufall Health Center, Inc. (the "Center"), which comprise the statement of financial position as of December 31, 2014, and the related statements of activities and changes in net assets, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Center'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 the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of Federal and state awards, as required by Office of Management and Budget ("OMB") Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and State of New Jersey, Department of Treasury, Office of Management and Budget Circular 04-04, *Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid*, is presented for purposes of additional analysis and is not a required part of the financial statements. The schedules of disbursements by grant included in the accompanying financial statements on pages 29 through 37 are also presented for purposes of additional analysis and are not a required part of the financial statements. The schedule of expenditures of Federal and state awards and schedules of disbursements by grant are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 31, 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, 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 the Center's internal control over financial reporting and compliance.

The image shows a handwritten signature in black ink that reads "Cohn Reznick LLP". The signature is written in a cursive, flowing style.

New York, New York
July 31, 2015

Zufall Health Center, Inc.

Statement of Financial Position
December 31, 2014

Assets

Current assets:

Cash and cash equivalents	\$ 2,225,337
Investments	2,476,708
Patient services receivable, net	1,841,600
340B pharmacy receivable	323,798
Grants, contracts and contributions receivable	398,690
Meaningful use receivable	76,500
Prepaid expenses and other current assets	146,523
Total current assets	<u>7,489,156</u>

Property and equipment, net	9,551,485
Security deposits	26,554
Reserve fund	22,680
Total	<u>\$ 17,089,875</u>

Liabilities and Net Assets

Current liabilities:

Accounts payable and accrued expenses	\$ 978,615
Accrued payroll and employee benefits	765,200
Refundable advances	98,622
Current portion of long-term debt	49,125
Total current liabilities	<u>1,891,562</u>

Long-term debt	<u>1,415,574</u>
Total liabilities	<u>3,307,136</u>

Commitments and contingencies

Net assets:

Unrestricted:

Undesignated	11,089,833
Board-designated	1,981,366
Total unrestricted net assets	<u>13,071,199</u>

Temporarily restricted net assets	711,540
Total net assets	<u>13,782,739</u>

Total	<u>\$ 17,089,875</u>
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See Notes to Financial Statements.

Zufall Health Center, Inc.

**Statement of Activities and Changes in Net Assets
Year Ended December 31, 2014**

	Unrestricted	Temporarily Restricted	Total
Revenue:			
Patient services (net of contractual allowances)	\$ 9,725,911	\$ -	\$ 9,725,911
Provision for bad debts	(264,403)	-	(264,403)
Net patient services revenue net of provision for bad debts	9,461,508	-	9,461,508
DHHS grants	3,971,288	-	3,971,288
Contract services and contributions	1,998,703	90,481	2,089,184
340B pharmacy	770,848	-	770,848
Meaningful use incentive	76,500	-	76,500
Donated vaccines and supplies	519,349	-	519,349
Other	510,147	-	510,147
Total revenue	17,308,343	90,481	17,398,824
Expenses:			
Salaries and related taxes and benefits	11,374,380	-	11,374,380
Other than personnel services	4,694,923	-	4,694,923
Interest	66,020	-	66,020
Total expenses	16,135,323	-	16,135,323
Operating income prior to depreciation and amortization and nonoperating revenue	1,173,020	90,481	1,263,501
Depreciation and amortization	445,299	-	445,299
Income from operations	727,721	90,481	818,202
Nonoperating revenue:			
DHHS capital grants	51,509	-	51,509
Contribution received in acquisition of WHCC	1,395,120	-	1,395,120
Changes in net assets	2,174,350	90,481	2,264,831
Net assets, beginning of year	10,896,849	621,059	11,517,908
Net assets, end of year	<u>\$ 13,071,199</u>	<u>\$ 711,540</u>	<u>\$ 13,782,739</u>

See Notes to Financial Statements.

Zufall Health Center, Inc.

**Statement of Functional Expenses
Year Ended December 31, 2014**

	Program Services	General and Administrative	Fundraising	Total
Salaries and wages	\$ 7,796,873	\$ 1,546,302	\$ 99,712	\$ 9,442,887
Payroll taxes and fringe benefits	1,594,809	316,288	20,396	1,931,493
Consultants and contractual services	915,752	246,044	104	1,161,900
Insurance	47,795	9,585	531	57,911
Consumable supplies	1,722,610	-	-	1,722,610
Occupancy	162,574	93,546	4,063	260,183
Equipment rental and maintenance	264,287	6,942	-	271,229
Office expenses	57,733	185,131	480	243,344
Professional fees	33,416	13,904	-	47,320
Utilities	32,502	109,118	-	141,620
Repairs and maintenance	129,627	8,135	-	137,762
Licenses and fees	20,320	32,882	-	53,202
Dues and subscriptions	25,567	26,678	-	52,245
Travel, conferences and meetings	33,626	110,247	135	144,008
Telephone	57,723	16,986	349	75,058
Interest	-	66,020	-	66,020
Other	302,789	877	22,865	326,531
Totals	<u>13,198,003</u>	<u>2,788,685</u>	<u>148,635</u>	<u>16,135,323</u>
Depreciation and amortization	<u>353,238</u>	<u>92,061</u>	<u>-</u>	<u>445,299</u>
Total functional expenses	<u>\$ 13,551,241</u>	<u>\$ 2,880,746</u>	<u>\$ 148,635</u>	<u>\$ 16,580,622</u>

See Notes to Financial Statements.

Zufall Health Center, Inc.

**Statement of Cash Flows
Year Ended December 31, 2014**

Cash flows from operating activities:	
Cash received from patient services	\$ 9,186,588
Cash received from contract services and contributions	5,951,486
Cash received from 340(B) pharmacy	635,565
Cash received from meaningful use incentive	76,500
Cash received from other	473,818
Cash paid to employees	(11,145,798)
Cash paid to vendors	(3,830,208)
Cash paid for interest	(78,971)
Net cash provided by operating activities	1,268,980
Cash flows from investing activities:	
Cash received in acquisition of WHCC	290,630
Purchase of property and equipment	(516,289)
Proceeds from sale of investments	528,128
Purchase of investments	(601,644)
Net cash used in investing activities	(299,175)
Cash flows from financing activities:	
Payment of long-term debt	(43,751)
Proceeds from nonoperating DHHS capital grants	51,509
Net cash provided by financing activities	7,758
Net increase in cash and cash equivalents	977,563
Cash and cash equivalents, beginning of year	1,247,774
Cash and cash equivalents, end of year	\$ 2,225,337
Reconciliation of changes in net assets to net cash provided by operating activities:	
Changes in net assets	\$ 2,264,831
Adjustments to reconcile changes in net assets to net cash provided by operating activities:	
Nonoperating DHHS capital grants	(51,509)
Nonoperating contribution received in acquisition of WHCC	(1,395,120)
Provision for bad debts	264,403
Depreciation and amortization	445,299
Realized and unrealized gain on investments	(34,034)
Changes in operating assets and liabilities:	
Patient services receivable	(556,825)
Grants, contracts and contributions receivable	(108,986)
Pharmacy receivable	(135,283)
Prepaid expenses and other current assets	3,759
Security deposits	(6,054)
Accounts payable and accrued expenses	332,415
Accrued payroll and employee benefits	228,582
Refundable advances	17,502
Net cash provided by operating activities	\$ 1,268,980
Supplemental disclosure of noncash investing activity:	
Capital acquisitions included in accounts payable and accrued expenses	\$ 16,734
Contribution received in acquisition of WHCC	\$ 1,104,490
Acquired property and equipment, net	\$ 1,400,000

See Notes to Financial Statements.

Zufall Health Center, Inc.

**Notes to Financial Statements
December 31, 2014**

Note 1 - Organization and summary of significant accounting policies

Organization

Zufall Health Center, Inc. (the "Center") operates healthcare centers across six counties in Northwest and Central New Jersey: Morris, Warren, Sussex, Somerset, Essex and Hunterdon. The Center provides a broad range of health services to a largely medically underserved population.

Effective January 1, 2014, the Center acquired the assets and assumed the liabilities of the Women's Health & Counseling Center (WHCC), a not-for-profit organization providing various clinical and educational services to residents of Somerset County and surrounding areas. See Note 15.

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

Basis of presentation

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

Use of estimates

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

Classification of net assets

The Center reports information regarding its financial position and activities according to the following three categories:

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

Temporarily restricted net assets are those whose use by the Center has been limited by donors to a specific purpose. When donor restrictions expire, that is, when a time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are recorded as net assets released from restrictions.

Permanently restricted net assets are net assets whose use is limited by donor-imposed stipulations that neither expire by the passage of time nor can be fulfilled or otherwise removed by actions of the Center. Generally, the donors of these assets permit the Center to use all or part of the income earned on related investments for general or specific purposes. The Center does not have any permanently restricted net assets at December 31, 2014.

Zufall Health Center, Inc.

**Notes to Financial Statements
December 31, 2014**

Cash and cash equivalents

The Center maintains its cash and cash equivalents in bank deposit accounts which, at times, may exceed Federally-insured limits. The Center has not experienced any losses in such accounts. At December 31, 2014, the Center's cash and cash equivalents balance exceeded Federally insured limits by \$1,203,310. All highly liquid investments with maturities of three months or less when purchased are considered to be cash equivalents.

Investments

Investments are comprised of common stocks, mutual funds and exchange traded funds which are valued at fair value with realized and unrealized gains and losses included in the statement of activities and changes in net assets. Realized gains or losses are recognized on the specific identification method.

Patient services receivable

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

Receivables due directly from patients are carried at the original charge for the service provided less discounts provided under the Center's charity care policy, less amounts covered by third-party payors and less an estimated allowance for doubtful receivables. Management determines the allowance for doubtful accounts by identifying troubled accounts and by historical experience applied to an aging of accounts. The Center considers accounts past due when they are outstanding beyond 90 days with no payment. The Center generally does not charge interest on past due accounts. Patient receivables are written-off against the allowance for doubtful accounts when deemed uncollectible. Recoveries of receivables previously written off are recorded as a reduction of bad debt expense when received.

Concentrations of credit risk

Financial instruments that potentially subject the Center to concentrations of credit risk consist principally of cash and cash equivalents, patient services receivable, grants receivable, contracts receivable, contributions receivable, pharmacy receivable and meaningful use receivable. The Center places its cash and cash equivalents with high-quality financial institutions. The Center monitors its financial institutions and the concentration of credit risk on a regular basis and does not anticipate nonperformance by the financial institutions.

Patient services receivable credit risk is limited because the receivables are reported at their outstanding unpaid principal balances reduced by an allowance for doubtful accounts. The Center estimates doubtful accounts based on historical bad debts, factors related to

Zufall Health Center, Inc.

**Notes to Financial Statements
December 31, 2014**

specific payors' ability to pay and current economic trends. The Center writes off accounts receivable against the allowance when a balance is determined to be uncollectible.

Grants, contracts, pharmacy and meaningful use receivables credit risk is limited due to the nature of the contracts and grants. The Center regularly monitors its grants, contracts, pharmacy and meaningful use receivables by investigating delayed payments and differences when payments received do not conform to the amount billed. The Center considers all grants, contracts, pharmacy and meaningful use receivables as collectible.

Property and equipment

Property and equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization is calculated using the straight-line method over the estimated useful lives of the assets ranging from 5-40 years. Leasehold improvements are amortized over the shorter of the useful life of the asset or the lease term. Expenditures over \$5,000 are capitalized. Maintenance, repairs and minor renewals are expensed as incurred. When assets are retired or otherwise disposed of, their costs and related accumulated depreciation and amortization are removed from the accounts and any resulting gains or losses are included in changes in net assets.

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

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

Impairment of long-lived assets

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

Patient services revenue

The Center has agreements with third-party payors that provide for payments to the Center at amounts different from its established rates. Payment arrangements include predetermined fee schedules and discounted charges. Service fees are reported at the estimated net realizable amounts from patients, third-party payors and others for services

Zufall Health Center, Inc.

**Notes to Financial Statements
December 31, 2014**

rendered, including retroactive adjustments under reimbursement agreements with third-party payors, which are subject to audit by administering agencies. These adjustments are accrued on an estimated basis, and are adjusted in future periods as final settlements are determined. The Center provides care to certain patients under Medicaid and Medicare payment arrangements. Laws and regulations governing the Medicaid and Medicare programs are complex and subject to interpretation. Compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action. Self-pay revenue is recorded at published charges with charitable care deducted to arrive at gross self-pay revenue. Contractual allowances are then deducted to arrive at net self-pay patient revenue before a provision for bad debts.

Charity care and community benefit

The Center is open to all patients, regardless of their ability to pay. In the ordinary course of business, the Center renders services to patients who are financially unable to pay for healthcare. The Center provides care to those patients who meet certain criteria under its sliding fee discount policy without charge or at amounts less than the established rates. Charity care services are computed using a sliding fee scale based on patient income and family size.

The Center maintains records to identify and monitor the level of sliding fee discount it provides. For uninsured self-pay patients that do not qualify for charity care, the Center recognizes revenue on the basis of its standard rates for services provided or on the basis of discounted rates, if negotiated or provided by policy. On the basis of historical experience, a significant portion of the Center's uninsured patients will be unable or unwilling to pay for the services provided. Thus, the Center records a significant provision for bad debts related to uninsured patients in the period the services are provided.

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

Based on the cost of patient services, charity care and community benefit expenses for the year ended December 31, 2014 amounted to approximately \$4,600,000 and \$2,700,000 respectively.

Grants and contracts

Revenue from government grants and contracts designated for use in specific activities is recognized in the period when the expenditures have been incurred in compliance with the grantor's restrictions. Grants and contract awards for the acquisition of long-lived assets are reported as unrestricted nonoperating revenue, in the absence of donor stipulations to the contrary, during the fiscal year in which the assets are acquired. Cash received in excess of revenue recognized is recorded as refundable advances.

At December 31, 2014, the Center has received conditional DHHS grants in the amount of \$2,310,613 that have not been recorded in the accompanying financial statements as they have not yet been earned. These grants require the Center to provide certain services

Zufall Health Center, Inc.

**Notes to Financial Statements
December 31, 2014**

during specified periods. If such services are not provided, the governmental entities are not obligated to expend the funds allotted under the grants.

340B pharmacy revenue

The Center participates in Section 340B of the Public Health Service Act ("PHS Act"), "Limitation on Prices of Drugs Purchased by Covered Entities" through its agreement with a third-party administrative agent and certain unaffiliated local pharmacies. Participation in this program allows the Center to purchase pharmaceuticals at discounted rates for prescriptions to eligible patients. The Center records revenue based on the price of the pharmaceuticals dispensed.

In-kind contributions

Donated vaccines are recognized in the accompanying financial statements based on fair value. In 2014, donated vaccines received amounted to \$472,134 and other donated supplies amounted to \$47,215.

Contributions

Contributions are recorded at fair value when received or pledged. Amounts are recorded as temporarily or permanently restricted revenue if they are received with donor stipulations that limit the use of the donated asset. Contributions received with no donor stipulations are recorded as unrestricted revenue. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of activities and changes in net assets as net assets released from restrictions. Contributions received with temporary restrictions that are met in the same reporting period are reported as an increase in unrestricted net assets. Conditional contributions are recognized in the period when expenditures have been incurred in compliance with the grantor's restrictions.

Meaningful use incentive

The American Recovery and Reinvestment Act of 2009 ("ARRA") amended the Social Security Act to establish one-time incentive payments under the Medicare and Medicaid programs for certain professionals that: (1) meaningfully use certified Electronic Health Record ("EHR") technology, (2) use the certified EHR technology for electronic exchange of health information to improve quality of healthcare, and (3) use the certified EHR technology to submit clinical and quality measures. These provisions of ARRA, together with certain of its other provisions, are referred to as the Health Information Technology for Clinical and Economic Health ("HITECH") Act. The criteria for meaningful use incentives will be staged in three steps over the course of six years and be paid out based on a transitional schedule. The Center's providers have met the criteria and have earned \$76,500 from the Medicaid incentive program for the year ended December 31, 2014.

Interest earned on Federal funds

Interest earned on Federal funds is recorded as a payable to the United States Public Health Services ("PHS") in compliance with the regulations of the United States Office of Management and Budget.

Zufall Health Center, Inc.

**Notes to Financial Statements
December 31, 2014**

Functional expenses

The cost of providing the various services and other activities has been summarized on a functional basis in the statement of functional expenses. Accordingly, certain costs have been charged to program services, general and administrative or fundraising based on a combination of specific identification and allocation by management.

Performance indicator

The statement of activities and changes in net assets includes operating income prior to nonoperating activities as the performance indicator. Changes in unrestricted net assets which are excluded from the performance indicator include DHHS capital grants.

Tax status

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

The Center has no unrecognized tax benefits at December 31, 2014. The Center's Federal and state income tax returns prior to fiscal years 2011 and 2010, respectively, are closed and management continually evaluates expiring statutes of limitations, audits, proposed settlements, changes in tax law and new authoritative rulings.

The Center recognizes interest and penalties associated with tax matters such as operating expenses and include accrued interest and penalties with accrued expenses in the statement of financial position.

The Center has filed all required payroll tax returns and payroll taxes due have been paid.

Subsequent events

The Center has evaluated subsequent events through July 31, 2015, which is the date the financial statements were available to be issued.

Note 2 - Patients services receivable

Patient services receivable, net, consist of the following at December 31:

Medicaid (including Medicaid managed care)	\$ 552,551
Medicare	35,398
Self-pay	151,174
Private insurance	209,633
New Jersey Managed Care Wraparound	622,565
New Jersey Uncompensated Care	<u>579,134</u>
Total	2,150,455
Less allowance for doubtful accounts	<u>308,855</u>
Total	<u>\$ 1,841,600</u>

Zufall Health Center, Inc.

**Notes to Financial Statements
December 31, 2014**

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

The Center's allowance for doubtful accounts was 14 percent of patient services receivable at December 31, 2014. The Center had \$528,797 of direct write-offs for the year ended December 31, 2014. The Center has not changed its charity care or uninsured discount policies during fiscal year 2014.

Note 3 - Grants, contracts and contributions receivable

Grants, contracts and contributions receivable consist of the following at December 31:

New Jersey Department of Health and Senior Services:	
Cancer Education and Early Detection Program	\$ 101,762
Outreach and Education Program	41,227
National Association of Community Health Centers - Americorps	38,181
American Cancer Society	37,500
Other	<u>180,020</u>
Total	<u>\$ 398,690</u>

Zufall Health Center, Inc.

**Notes to Financial Statements
December 31, 2014**

Note 4 - Investments

At December 31, 2014, investments consist of the following:

	<u>Cost</u>	<u>Fair Value</u>
Investments:		
Common stocks	\$ 393,578	\$ 707,015
Mutual funds	1,492,235	1,643,688
Exchange traded funds	<u>117,775</u>	<u>126,005</u>
 Totals	 <u>\$ 2,003,588</u>	 <u>\$ 2,476,708</u>

Realized and unrealized gains on investments for the year ended December 31, 2014 are as follows:

Investments:	
Realized gains	\$ 64,904
Unrealized loss	<u>(30,870)</u>
 Total	 <u>\$ 34,034</u>

Realized and unrealized gains on investments are recorded under other revenues in the statement of activities and changes in net assets.

Note 5 - Fair value measurements

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

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

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

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

In determining fair value, the Center utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible as well as considers counterparty credit risk in its assessment of fair value.

Zufall Health Center, Inc.

**Notes to Financial Statements
December 31, 2014**

The following table sets forth by level, within the fair value hierarchy, the Center's investments as of December 31, 2014:

	Assets at Fair Value as of December 31, 2014			
	Level 1	Level 2	Level 3	Total
Common stocks:				
Basic materials	\$ 93,608	\$	\$	\$ 93,608
Consumer goods	70,013			70,013
Financial	107,597			107,597
Healthcare	67,594			67,594
Industrial goods	59,901			59,901
Investment management	23,273			23,273
Services	142,771			142,771
Technology	114,318			114,318
Utilities	27,938			27,938
Mutual funds:				
Diversified emerging markets	241,723			241,723
Equity - energy	34,754			34,754
Foreign large value	82,990			82,990
Foreign small/mid value	196,131			196,131
Muni national intermediate	138,737			138,737
Nontraditional bond	420,492			420,492
Short-term bond	382,064			382,064
Large value	146,795			146,795
Exchange-traded funds:				
Index fund	79,090			79,090
Equity-energy	46,919			46,919
	<u>\$ 2,476,708</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,476,708</u>

The following is a description of the valuation methodologies used for investments at fair value. There have been no changes in methodologies used during the year ended December 31, 2014.

Investments in common stocks, mutual funds and exchange traded funds are designated as Level 1 and are valued using market prices on active markets and valuations are obtained from real-time quotes for transactions in active exchange markets involving identical assets.

The preceding methods may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Center believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Zufall Health Center, Inc.

**Notes to Financial Statements
December 31, 2014**

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

Note 6 - Property and equipment

Property and equipment consists of the following at December 31, 2014:

Land and buildings	\$ 3,305,508
Building and leasehold improvements	6,072,314
Vehicles	281,985
Furniture and equipment	<u>1,481,432</u>
Total	11,141,239
Less accumulated depreciation and amortization	<u>(1,808,223)</u>
Sub-total	9,330,016
Construction in progress	<u>218,469</u>
Total	<u>\$ 9,551,485</u>

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

Depreciation and amortization expenses amounted to \$445,299 for the year ended December 31, 2014.

No depreciation has been provided on assets classified as construction in progress as these assets have not yet been placed in service.

For the year ended December 31, 2014, interest expense capitalized amounted to \$13,569.

Note 7 - Line of credit

The Center has a line of credit of \$200,000 payable with interest at prime rate plus 0.50% (3.75% at December 31, 2014). The line of credit is secured by all business assets and is payable in full upon demand by the lender. There is no balance as of December 31, 2014. There was no interest expense for the year ended December 31, 2014.

Zufall Health Center, Inc.

**Notes to Financial Statements
December 31, 2014**

Note 8 - Long-term debt

Long-term debt consists of the following:

Mortgage payable - \$800,000 face amount, maturing on July 14, 2020, payable in equal monthly installments of \$5,258. Under the agreement, the Fulton Bank of New Jersey shall provide financing up to a maximum amount of \$800,000 for a period of 10 years commencing on July 14, 2010 and maturing on July 14, 2020. Interest on the outstanding principal is fixed at 6.125% per year and may change every five years thereafter beginning on July 14, 2015 based on the five-year Federal Home Loan rate of the Bank of New York plus 3%, subject to a minimum interest rate of 6% and a maximum interest rate of 9.5%. Unpaid principal and interest of approximately \$614,000 on July 14, 2020 will be due on July 14, 2020. The properties located at 18 West Blackwell Street and 23-25 South Warren Street both in Dover, New Jersey, serve as collateral for the loan; such properties had net book values of \$5,395,683 and \$99,905, respectively, as of December 31, 2014.	\$ 730,943
Promissory note - \$420,000 face amount, maturing on December 20, 2043, payable in equal monthly installments of \$1,890, including interest at 3.5% per annum. The property located at 117 Seber Road, Hackettstown, NJ, serves as collateral for the loan; the property had net book value of \$405,966, as of December 31, 2014. The promissory note requires the Center to maintain a reserve fund, which amounted to \$22,680 as of December 31, 2014.	411,891
Mortgage payable - \$342,114 face amount, maturing in December 2020, payable in equal monthly installments of \$3,133. Under the agreement Santander Bank shall provide financing at an interest rate of 4.75%. The property located at 71 4 th Street, Somerville, NJ, serves as collateral for the loan; the property had net book value of \$950,552, as of December 31, 2014.	<u>321,865</u>
Total	1,464,699
Less current portion	<u>49,125</u>
Long-term debt	<u>\$1,415,574</u>

Zufall Health Center, Inc.

**Notes to Financial Statements
December 31, 2014**

Future maturities of long-term debt in each of the five years subsequent to December 31, 2014 and thereafter are as follows:

<u>Year ending December 31,</u>	<u>Amount</u>
2015	\$ 49,125
2016	50,494
2017	53,148
2018	54,200
2019	258,125
Thereafter	<u>999,607</u>
Total	<u>\$ 1,464,699</u>

The Center is required to comply with certain covenants under its mortgage payable and promissory note.

Note 9 - Temporarily restricted net assets

On September 6, 2000, the Center purchased the building located at 17-19 South Warren Street, Dover, New Jersey for \$400,000, using funds borrowed from the Town of Dover, New Jersey. The Town of Dover applied for, and received, a \$400,000 Community Development Block Grant to acquire a property to be owned and operated by the Center. This is an eligible activity under Section 105(a)(14) of the Housing and Community Development Act of 1974, as amended, providing that the Center property be located at 17-19 South Warren Street in Dover, New Jersey and serve low and moderate-income persons.

As part of the grant terms, a loan agreement between the Town of Dover and the Center setting forth the terms of the assistance and the activities authorized was incorporated into this grant agreement, whereby \$400,000 of the amount borrowed was for acquisition of the premises which is the subject matter of this loan and constituted a loan at 0% interest and was recorded as a temporarily restricted net asset due to the nature of the agreement. If the Center ceases to use the premises as a community clinic serving low and moderate-income persons, or if the Center ceases to exist temporarily restricted net assets will be decreased, and then the title to the premises will revert to the Town of Dover and the loan will be forgiven in full.

Zufall Health Center, Inc.

**Notes to Financial Statements
December 31, 2014**

The following comprise the temporarily restricted net assets as of December 31, 2014:

Town of Dover, New Jersey for building in Dover	\$ 400,000
Community Foundation of New Jersey:	
Mental Illness	48,448
Dental	45,000
Alcoa Foundation for Mobile Medical Van Capacity Expansion Program	15,045
Aetna Eat Better Spend Less Program	23,579
Walgreens/American Cancer Society for Change Program	50,000
Healthcare Foundation of New Jersey Information Technology Integration Program	624
Johnson & Johnson Immigrant Youth Support Program	2,500
Robert Wood Johnson Foundation for the Renovation Program	121,219
American Pharmacists Association 340B Peer-to-Peer Program	2,500
United Way:	
Primary Care Program	1,458
Sexual Assault Program	<u>1,167</u>
Total	<u>\$ 711,540</u>

Note 10 - Patient services revenue, net

The Center recognizes patient service revenue associated with services provided to patients who have Medicaid, Medicare, third party payor and managed care plans coverage on the basis of contractual rates for services rendered. For uninsured patients that do not qualify for charity care, the Center recognizes revenue on the basis of its standard rates for services provided or on the basis of discounted rates, if negotiated or provided by policy. Charity care services are computed using a sliding fee scale based on patient income and family size. On the basis of historical experience, a significant portion of the Center's uninsured patients will be unable or unwilling to pay for the services provided. Thus, the Center records a significant provision for bad debts related to uninsured patients in the period the services are provided. Patient service revenue, net of contractual allowances and discounts (but before the provision for bad debts), recognized in the period from these major payor sources, is as follows:

Medicaid (including Medicaid managed care)	\$ 2,021,459
Medicare	314,743
Self-pay	1,478,596
Private insurance	273,808
New Jersey Managed Care Wraparound	1,880,408
New Jersey Uncompensated Care	<u>3,756,897</u>
Total	<u>\$ 9,725,911</u>

Zufall Health Center, Inc.

Notes to Financial Statements
December 31, 2014

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

Note 11 - DHHS grants

For the year ended December 31, 2014, the Center recognized grant revenue from the DHHS as follows:

<u>Grant Number</u>	<u>Grant Period</u>	<u>Total Grant</u>	<u>Revenue Recognized</u>
6H80CS04211-10-15	12/01/13 - 11/30/14	\$ 3,924,011	\$ 3,413,688
6H80CS04211-11-01	12/01/14 - 11/30/15	3,516,681	293,457
6H76HA24737-02-02	07/01/13 - 04/30/14	252,777	95,733
6H76HA24737-03-00	05/01/14 - 04/30/15	287,238	<u>168,410</u>
Sub-total			3,971,288
Nonoperating: capital grant			
C8CCS27604-01-01	09/01/14 - 08/31/16	249,710	<u>51,509</u>
Total			<u>\$ 4,022,797</u>

Zufall Health Center, Inc.

**Notes to Financial Statements
December 31, 2014**

Note 12 - Contract services and contributions

For the year ended December 31, 2014, contract services and contributions revenue consist of the following:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
New Jersey Department of Health and Senior Services:			
New Jersey Cancer Education and Early Detection	\$ 391,206	\$ -	\$ 391,206
Children's Oral Health	67,911	-	67,911
Outreach and Education	157,587	-	157,587
New Jersey Family Planning League:			
Family Planning Services	296,474	-	296,474
City of Newark:			
Ryan White Part A	135,005	-	135,005
New Jersey Department of Children and Families:			
Sexual Assault and Rape Care	103,067	-	103,067
Adolescent Pregnancy Prevention Initiative	62,777	-	62,777
New Jersey Department of Law and Public Safety:			
Victim Assistance Grant	45,833	-	45,833
Stop Violence Against Women	15,273	-	15,273
Community Foundation of New Jersey:			
Dental	43,000	45,000	88,000
Mental Illness	45,665	42,335	88,000
Alcoa Foundation	33,000	-	33,000
Walgreens / American Cancer Society	50,000	-	50,000
Morristown Community Development Block Grant	65,880		65,880
National Association of Community:			
Health Centers AmeriCorps	65,500	-	65,500
Daiichi Sankyo			
Pharmacy	26,667	-	26,667
Data Analyst	15,000	-	15,000
Van	66,667	-	66,667
Sandy Funded Rape Prevention Education	50,428	-	50,428
Healthcare Foundation of New Jersey	47,360	624	47,984
Other	<u>214,403</u>	<u>2,522</u>	<u>216,925</u>
Total	<u>\$ 1,998,703</u>	<u>\$ 90,481</u>	<u>\$ 2,089,184</u>

Note 13 - Retirement plan

The Zufall Health Center, Inc. Employees' Retirement Plan (the "Plan") is a defined contribution plan established on June 1, 2008. It is available to substantially all employees of the Center who have attained 21 years of age and who have completed one year of eligible service with a minimum of 1,000 hours of service. Contributions may be invested in available investment funds elected by the employee. The Plan has met the requirements of the Employee Retirement Income Security Act of 1974 ("ERISA") and is therefore subject

Zufall Health Center, Inc.

**Notes to Financial Statements
December 31, 2014**

to the provisions of ERISA. The Plan provides for benefit distributions to Plan participants or their beneficiaries upon the participant's retirement, termination of employment or death. Any participant may apply to borrow all or part of his or her vested account balance subject to criteria in the Plan set by Internal Revenue Service regulations and limits and the approval of the Plan administrator. Participants are fully vested after five years of service in the employer match but forfeit all of the employer contributions and earnings thereon if the participant leaves with less than two years of service. Pension expense for 2014 amounted to \$234,092.

Effective January 1, 2012, the Center established a 162 Bonus Plan which provides eligible employees discretionary bonuses intended to fund certain life insurance benefits. The bonus plan is exempt from ERISA. Employees become eligible to participate on the first day of the plan year upon completing 3 years of service on the 30th of September of the same plan year. The Center's discretionary contribution to the bonus plan shall be used to pay for the premium on the participating employees' life insurance policy. The Center contributed \$87,339 to the bonus plan for the year ended December 31, 2014; the expense is included in salaries and related taxes and benefits in the statement of activities and changes in net assets.

Note 14 - Commitments and contingencies

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

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

The healthcare industry is subject to voluminous and complex laws and regulations of Federal, state and local governments. Compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government healthcare program participation requirements, reimbursement laws and regulations, anti-kickback and anti-referral laws, and false claims prohibitions. In recent years, government activity has increased with respect to investigations and allegations concerning possible violations of reimbursement, false claims, anti-kickback and anti-referral statutes and regulation by healthcare providers. The Center believes that it is in material compliance with all applicable laws and regulations and is not aware of any pending or threatened

Zufall Health Center, Inc.

**Notes to Financial Statements
December 31, 2014**

investigations involving allegations of potential wrongdoing. Upon audit, if discrepancies are discovered, the Center could be held responsible for refunding the amount in question.

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

The Center entered into various lease agreements for the use of space, vehicles and office equipment which have been classified as operating leases and expire through December 31, 2023. As of December 31, 2014, the Center is obligated to make future minimum payments in each of the subsequent years as follows:

<u>Year ending December 31,</u>	<u>Amount</u>
2015	\$ 201,388
2016	177,771
2017	124,454
2018	83,265
2019	85,763
Thereafter	<u>280,866</u>
Total	<u>\$ 953,507</u>

Rent expense under these operating leases was \$245,484 for the year ended December 31, 2014.

Note 15 - Business combination

On January 1, 2014, the Center acquired 100% of the operations of Women's Health & Counseling Center (WHCC). Through the acquisition, the combined organization seeks to expand the provision of high-quality, affordable primary care services to individuals and families residing in central New Jersey's medically underserved communities, and provide economies of scale in purchasing, administration, and provision of services, thereby lessening the overall cost and enhancing the Center's ability to serve medically underserved populations.

Zufall Health Center, Inc.

**Notes to Financial Statements
December 31, 2014**

The acquisition was accounted for under the acquisition method of accounting. In conjunction with the acquisition, contribution received and recognized amounts of identifiable assets acquired and liabilities assumed at fair value as of January 1, 2014 were as follows:

Contribution received in acquisition of WHCC	<u>\$ 1,395,120</u>
Recognized amounts of identifiable assets acquired and liabilities assumed:	
Cash, accounts receivable and other assets	\$ 407,499
Property and equipment, net	1,400,000
Accounts payable and other current liabilities	(71,999)
Mortgage payable	<u>(340,380)</u>
Total identifiable net assets	<u>\$ 1,395,120</u>

There were no significant assets or liabilities for which GAAP does not require recognition in the financial statements, no material transactions between the Center and WHCC prior to the acquisition and there were no material adjustments to conform the accounting policies of the combining organizations.

Zufall Health Center, Inc.

**Schedule of Expenditures of Federal and State Awards
Year Ended December 31, 2014**

Federal Grantor/ Pass-through Grantor/Program Title	Federal CFDA/State Number	Pass-through Grantor's Number	Total Expenditures
Federal awards:			
U.S. Department of Health and Human Services:			
Direct:			
Health Centers Cluster:			
Consolidated Health Centers	93.224	N/A	\$ 2,278,438
Affordable Care Act (ACA) Grants for New and Expanded Services under the Health Center Program	93.527	N/A	<u>1,428,707</u>
Total - Health Centers Cluster			3,707,145
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918	N/A	264,543
Affordable Care Act (ACA) Grants for Capital Development in Health Centers	93.526	N/A	51,509
Passed through Newark Department of Child and Family Well-Being: Health Care and Other Facilities	93.887	N/A	135,005
Passed through City of New Jersey Family Planning League: Family Planning Services	93.217	FPHPA 302394	296,474
Passed through New Jersey Department of Children and Families: Injury Prevention and Control Research and State and Community Based Programs	93.136	14XETW	37,532
Social Services Block Grant	93.667	14BATZ	50,428
Passed through State of New Jersey Department of Health and Senior Services: Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283	DFHS15CED023	58,554
Total U.S. Department of Health and Human Services			<u>4,601,190</u>
Corporation for National and Community Service: Passed through National Association of Community Health Centers: ARRA - Americorps	94.006	13EDHMD0010036	65,500
U.S Department of Housing and Urban Development Office of Community Planning and Development: Passed through Morris County Community Development Block Grants/Entitlement Grants	14.218	B-12-UC-34-0105	78,519
U.S. Department of Justice: Passed through New Jersey Department of Law and Public Safety Division of Criminal Justice:			
Crime Victim Assistance	16.575	12 VAG-07	45,833
ARRA - Violence Against Women Formula Grants	16.588	12 VAWA-48	<u>26,040</u>
Total Federal awards			<u>4,817,082</u>

Zufall Health Center, Inc.

Schedule of Expenditures of Federal and State Awards
Year Ended December 31, 2014

Federal Grantor/ Pass-through Grantor/Program Title	Federal CFDA/State Number	Pass-through Grantor's Number	Total Expenditures
State awards:			
State of New Jersey Department of Health and Senior Services:			
Preventive and Primary Care Program	05-2192-CHS-N-0		*
New Jersey Cancer Education and Early Detection	DFHS14CED027		\$ 199,235
New Jersey Cancer Education and Early Detection	DFHS15CED023		133,417
Children's Oral Health	DFHS14ORL002		42,911
Children's Oral Health	DFHS14ORL005		36,929
Outreach and Education	DFHS14OTR024		78,617
Outreach and Education	DFHS15OTR029		78,970
Diabetes Prevention and Control	DFHS14OTR024		39,018
HIV/AIDS Navigator	AIDS15NAV006		16,781
State of New Jersey Department of Children and Families:			
Adolescent Pregnancy Prevention Initiative	14BGTP		62,777
Sexual Assault and Rape Counseling	14XETW		65,535
Total state awards			<u>754,190</u>
Total Federal and state awards			<u>\$ 5,571,272</u>

* See Note 4 to Schedule of Expenditures of Federal and State Awards.

See Notes to Schedule of Expenditures of Federal and State Awards.

Zufall Health Center, Inc.

**Notes to Schedule of Expenditures of Federal and State Awards
December 31, 2014**

Note 1 - General information

The accompanying schedule of expenditures of Federal and state awards (the "Schedule") presents the activities in all Federal and state awards of Zufall Health Center, Inc. (the "Center") and is presented using the accrual basis of accounting. The Federal awards were provided primarily by the U.S. Department of Health and Human Services, while the state awards were provided by the New Jersey Department of Health and Senior Services.

Note 2 - Basis of presentation

The accompanying Schedule has been prepared in the format required under OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and State of New Jersey Department of Treasury Circular OMB 04-04, *Single Audit Policy for Recipients of Federal Grants, State Grants, and State Aid*. The purpose of this Schedule is to present a summary of those grant activities of the Center for the year ended December 31, 2014, which have been financed, in part, by the Federal and state governments. For the purpose of this Schedule, Federal and state awards include any assistance provided by Federal and state governments directly or indirectly in the form of grants, contracts, cooperative agreements, loans, loan guarantees, property, interest subsidies, insurance, direct appropriations and other noncash assistance.

Note 3 - Relationship to the financial statements

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

Note 4 - Preventive and Primary Care Program

The Center contracted with the State of New Jersey Department of Health to provide health and medical services to the uninsured population under the Preventive and Primary Care Program. This letter of agreement pays the Center a fixed amount per visit regardless of the actual costs incurred. During the year ended December 31, 2014, the amount earned and recognized as net revenue under this letter of agreement for the contract period July 1, 2013 to June 30, 2014 was \$1,855,572 and for the contract period July 1, 2014 to December 31, 2014 was \$1,901,325.

Revenue for this program is included in patient services revenue in the basic financial statements. Allowances are calculated based on expected cash collections.

Zufall Health Center, Inc.

Schedule of Disbursements by Grant
Year Ended December 31, 2014

Award: Children's Oral Health 2014
Grant Year: July 1, 2013 - June 30, 2014
Grant Number: DFHS14ORL002

Category	(Unaudited) Final Budget	Prior Year Expenditures	Current Year Expenditures	Total Expenditures	Final Questioned Costs
PERSONNEL:					
Salaries	\$ 50,491	\$ 20,627	\$ 29,864	\$ 50,491	\$ -
Fringe benefits	9,350	3,079	6,271	9,350	-
TOTAL PERSONNEL	59,841	23,706	36,135	59,841	-
OTHER COST CATEGORIES:					
Facility costs	-	-	-	-	-
Office expense and related costs	7,280	5,000	2,280	7,280	-
Program expense and related costs	5,379	2,555	2,824	5,379	-
Travel, conference and meetings	2,500	828	1,672	2,500	-
TOTAL DIRECT COSTS	75,000	32,089	42,911	75,000	-
INDIRECT COSTS	-	-	-	-	-
TOTAL COSTS	75,000	32,089	42,911	75,000	-
Less program income	-	-	-	-	-
NET TOTAL COSTS	\$ 75,000	\$ 32,089	\$ 42,911	\$ 75,000	\$ -

See Independent Auditor's Report.

Zufall Health Center, Inc.

**Schedule of Disbursements by Grant
Year Ended December 31, 2014**

Award: Children's Oral Health 2015
 Grant Year: July 1, 2014-June 30, 2015
 Grant Number: DFHS15ORL005

Category	(Unaudited) Final Budget	Current Year Expenditures	Total Expenditures	Final Questioned Costs
PERSONNEL:				
Salaries	\$ 49,706	\$ 25,747	\$ 25,747	\$ -
Fringe benefits	10,438	5,406	5,406	-
TOTAL PERSONNEL	60,144	31,153	31,153	
OTHER COST CATEGORIES:				
Facility costs	-	-	-	-
Office expense and related costs	8,556	4,278	4,278	-
Program expense and related costs	2,800	832	832	-
Travel, conference and meetings	3,500	666	666	-
TOTAL DIRECT COSTS	75,000	36,929	36,929	-
INDIRECT COSTS	-	-	-	-
TOTAL COSTS	75,000	36,929	36,929	-
Less program income	-	-	-	-
NET TOTAL COSTS	\$ 75,000	\$ 36,929	\$ 36,929	\$ -

See Independent Auditor's Report.

Zufall Health Center, Inc.

**Schedule of Disbursements by Grant
Year Ended December 31, 2014**

Award: New Jersey Cancer Education and Early Detection
 Grant Year: January 1, 2014 - June 30, 2014
 Grant Number: DFHS14CED027

Category	(Unaudited) Final Budget	Current Year Expenditures	Total Program Expenditures	Questioned Costs
PERSONNEL:				
Salaries	\$ 88,449	\$ 87,695	\$ 87,695	\$ -
Fringe benefits	13,480	14,024	14,024	-
TOTAL PERSONNEL	101,929	101,719	101,719	-
OTHER COST CATEGORIES:				
Facility costs	-	-	-	-
Office expense and related costs	1,250	1,250	1,250	-
Program expense and related costs	9,200	8,461	8,461	-
Travel, conference and meetings	313	326	326	-
Subgrants	86,543	87,479	87,479	-
TOTAL DIRECT COSTS	199,235	199,235	199,235	-
INDIRECT COSTS	-	-	-	-
TOTAL COSTS	199,235	199,235	199,235	-
Less program income	-	-	-	-
NET TOTAL COSTS	\$ 199,235	\$ 199,235	\$ 199,235	\$ -

See Independent Auditor's Report.

Zufall Health Center, Inc.

**Schedule of Disbursements by Grant
Year Ended December 31, 2014**

Award: New Jersey Cancer Education and Early Detection
 Grant Year: July 1, 2014-June 30, 2015
 Grant Number: DFHS15CED023

Category	(Unaudited) Final Budget	Current Year Expenditures	Total Program Expenditures	Questioned Costs
PERSONNEL:				
Salaries	\$ 109,835	\$ 56,503	\$ 56,503	\$ -
Fringe benefits	18,537	9,605	9,605	-
TOTAL PERSONNEL	128,372	66,108	66,108	-
OTHER COST CATEGORIES:				
Facility costs	-	-	-	-
Office expense and related costs	3,200	1,733	1,733	-
Program expense and related costs	30,059	15,697	15,697	-
Travel, conference and meetings	400	185	185	-
Subgrants	245,469	108,248	108,248	-
TOTAL DIRECT COSTS	407,500	191,971	191,971	-
INDIRECT COSTS	-	-	-	-
TOTAL COSTS	407,500	191,971	191,971	-
Less program income	-	-	-	-
NET TOTAL COSTS	\$ 407,500	\$ 191,971	\$ 191,971	\$ -

See Independent Auditor's Report.

Zufall Health Center, Inc.

Schedule of Disbursements by Grant
Year Ended December 31, 2014

Award: Outreach and Education 2014
Grant Year: October 1, 2013 - June 30, 2014
Grant Number: DFHS14OTR024

Category	(Unaudited) Final Budget	Prior Year Expenditures	Current Year Expenditures	Total Program Expenditures	Questioned Costs
PERSONNEL:					
Salaries	\$ 115,000	\$ 2,538	\$ 44,560	\$ 47,098	\$ -
Fringe benefits	24,150	533	9,358	9,891	-
TOTAL PERSONNEL	139,150	3,071	53,918	56,989	-
OTHER COST CATEGORIES:					
Facility costs	-	-	-	-	-
Office expense and related costs	600	50	1,977	2,027	-
Program expense and related costs	1,200	-	8,798	8,798	-
Travel, conference and meetings	3,150	-	905	905	-
Equipment and other capital expenditures	3,000	-	8,019	8,019	-
Other	2,900	-	5,000	5,000	-
TOTAL DIRECT COSTS	150,000	3,121	78,617	81,738	-
INDIRECT COSTS	-	-	-	-	-
TOTAL COSTS	150,000	3,121	78,617	81,738	-
Less program income	-	-	-	-	-
NET TOTAL COSTS	<u>\$ 150,000</u>	<u>\$ 3,121</u>	<u>\$ 78,617</u>	<u>\$ 81,738</u>	<u>\$ -</u>

See Independent Auditor's Report.

Zufall Health Center, Inc.

**Schedule of Disbursements by Grant
Year Ended December 31, 2014**

Award: Outreach and Education 2015
 Grant Year: July 1, 2014 - June 30, 2015
 Grant Number: DFHS15OTR029

Category	(Unaudited) Final Budget	Current Year Expenditures	Total Program Expenditures	Questioned Costs
PERSONNEL:				
Salaries	\$ 115,250	\$ 59,177	\$ 59,177	\$ -
Fringe benefits	24,203	12,427	12,427	-
TOTAL PERSONNEL	139,453	71,604	71,604	-
OTHER COST CATEGORIES:				
Facility costs	-	-	-	-
Office expense and related costs	247	571	571	-
Program expense and related costs	2,800	2,889	2,889	-
Travel, conference and meetings	2,500	892	892	-
Equipment and other capital expenditures	-	-	-	-
Other	5,000	3,014	3,014	-
TOTAL DIRECT COSTS	150,000	78,970	78,970	-
INDIRECT COSTS	-	-	-	-
TOTAL COSTS	150,000	78,970	78,970	-
Less program income	-	-	-	-
NET TOTAL COSTS	<u>\$ 150,000</u>	<u>\$ 78,970</u>	<u>\$ 78,970</u>	<u>\$ -</u>

See Independent Auditor's Report.

Zufall Health Center, Inc.

**Schedule of Disbursements by Grant
Year Ended December 31, 2014**

Award: Title X: The National Family Planning Program
 Grant Year: January 1, 2014 - December 31, 2014
 Grant Number: FPHPA 302394

Category	(Unaudited) Final Budget	Current Year Expenditures	Total Program Expenditures	Questioned Costs
PERSONNEL:				
Salaries	\$ 365,062	\$ 365,062	\$ 365,062	\$ -
Fringe benefits	68,423	68,423	68,423	-
TOTAL PERSONNEL	433,485	433,485	433,485	-
OTHER COST CATEGORIES:				
Supplies	40,426	40,426	40,426	-
Contractual	78,284	78,284	78,284	-
Other	38,508	38,508	38,508	-
TOTAL DIRECT COSTS	590,703	590,703	590,703	-
INDIRECT COSTS	-	-	-	-
TOTAL COSTS	590,703	590,703	590,703	-
Less program income	294,229	294,229	294,229	-
NET TOTAL COSTS	<u>\$ 296,474</u>	<u>\$ 296,474</u>	<u>\$ 296,474</u>	<u>\$ -</u>

See Independent Auditor's Report.

Zufall Health Center, Inc.

Schedule of Disbursements by Grant
Year Ended December 31, 2014

Award: Diabetes Prevention & Control 2014
Grant Year: June 1, 2014 - May 31, 2015
Grant Number: DFHS14OTR024

Category	(Unaudited) Budget	Current Year Expenditures	Total Expenditures	Questioned Costs
PERSONNEL:				
Salaries	\$ 53,650	\$ 25,575	\$ 25,575	\$ -
Fringe benefits	11,267	5,371	5,371	-
TOTAL PERSONNEL	64,917	30,946	30,946	-
OTHER COST CATEGORIES:				
Office Expense/Related Cost	500	363	363	-
Program Expense/Related Cost	6,195	2,147	2,147	-
Staff Training & Education	500	-	-	-
Travel, Conferences and Meetings	18,538	737	737	-
Equipment and Other Capital Expenditures	4,950	1,325	1,325	-
Facility Cost	7,000	3,500	3,500	-
TOTAL DIRECT COSTS	102,600	39,018	39,018	-
INDIRECT COSTS	-	-	-	-
TOTAL COSTS	102,600	39,018	39,018	-
Less program income	-	-	-	-
NET TOTAL COSTS	\$ 102,600	\$ 39,018	\$ 39,018	\$ -

See Independent Auditor's Report.

Zufall Health Center, Inc.

**Schedule of Disbursements by Grant
Year Ended December 31, 2014**

Award: HIV/AIDS Navigator 2015
 Grant Year: July 1, 2014 - June 30, 2015
 Grant Number: AIDS15NAV006

Category	(Unaudited) Final Budget	Current Year Expenditures	Total Program Expenditures	Questioned Costs
PERSONNEL:				
Salaries	\$ 80,622	\$ 13,868	\$ 13,868	\$ -
Fringe benefits	16,931	2,913	2,913	-
TOTAL PERSONNEL	97,553	16,781	16,781	-
OTHER COST CATEGORIES:				
Office Expense/Related Cost	500	-	-	-
Program Expense/Related Cost	14,291	-	-	-
Travel, Conferences and Meetings	2,000	-	-	-
Equipment and Other Capital Expenditures	3,600	-	-	-
Facility Cost	7,056	-	-	-
TOTAL DIRECT COSTS	125,000	16,781	16,781	-
INDIRECT COSTS	-	-	-	-
TOTAL COSTS	125,000	16,781	16,781	-
Less program income	-	-	-	-
NET TOTAL COSTS	\$ 125,000	\$ 16,781	\$ 16,781	\$ -

See Independent Auditor's Report.

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

To the Board of Directors
Zufall Health Center, Inc.

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Zufall Health Center, Inc. (the "Center") (a nonprofit organization), which comprise the statement of financial position as of December 31, 2014, and the related statements of activities and changes in net assets, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated July 31, 2015.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Center'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 Center's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "CohnReznick LLP". The signature is written in a cursive, flowing style.

New York, New York
July 31, 2015

Independent Auditor's Report on Compliance for Each Major Federal
and State Program and Report on Internal Control over Compliance Required
by OMB Circular A-133 and New Jersey OMB Circular 04-04

To the Board of Directors
Zufall Health Center, Inc.

Report on Compliance for Each Major Federal and State Program

We have audited Zufall Health Center, Inc.'s (the "Center") compliance with the types of compliance requirements described in the OMB Circular A-133 *Compliance Supplement* and New Jersey OMB Circular 04-04 that could have a direct and material effect on each of the Center's major Federal and state programs for the year ended December 31, 2014. The Center's major Federal and state 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 and state programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Center's major federal and state 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* and State of New Jersey, Department of Treasury, Office of Management and Budget Circular 04-04, *Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid*. Those standards and OMB Circular A-133 and New Jersey OMB Circular 04-04 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 and state 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 and state program. However, our audit does not provide a legal determination of the Center's compliance.

Opinion on Each Major Federal and State Program

In our opinion, the Center complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major Federal and state programs for the year ended December 31, 2014.

Report on Internal Control Over Compliance

Management of the Center is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Center's internal control over compliance with the types of requirements that could have a direct and material effect on each major Federal and state 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 and state program and to test and report on internal control over compliance in accordance with OMB Circular A-133 and New Jersey OMB Circular 04-04, 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 or state 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 or state 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 or state 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 and New Jersey OMB Circular 04-04. Accordingly, this report is not suitable for any other purpose.



New York, New York
July 31, 2015

Zufall Health Center, Inc.

**Schedule of Findings and Questioned Costs
Year Ended December 31, 2014**

Section I - Summary of Auditor's Results

Financial Statements:

Type of auditor's reports issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? yes no
- Significant deficiency(ies) identified? yes none reported

Noncompliance material to financial statements noted? yes no

Federal and State Awards:

Internal control over major programs:

- Material weakness(es) identified? yes no
- Significant deficiency(ies) identified? yes none reported

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

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

Identification of major programs:

<u>CFDA and State Number(s)</u>	<u>Name of Federal and State Program</u>
	U.S. Department of Health and Human Services: Health Centers Cluster:
93.224	Consolidated Health Centers
93.527	Affordable Care Act (ACA) Grants for New and Expanded Services under the Health Center Program
93.283	Centers for Disease Control and Prevention - Investigations and Technical Assistance
	State of New Jersey Department of Health and Senior Services:
05-2192-CHS-N-0	Preventive and Primary Care Program
DFHS14CED027 / DFHS15CED023	New Jersey Cancer Education and Early Detection Program

Dollar threshold used to distinguish between type A and B programs: \$300,000

Auditee qualified as low-risk auditee? yes no

Zufall Health Center, Inc.

**Schedule of Findings and Questioned Costs
Year Ended December 31, 2014**

Section II - Financial Statement Findings

None

Section III - Federal and State Award Findings and Questioned Costs

None

Zufall Health Center, Inc.

**Schedule of Prior Year's Findings
Year Ended December 31, 2014**

There were no findings noted in the prior year.