

Alder Health Services, Inc.

Audited Financial Statements
For the Year Ended June 30, 2015

Table of Contents

Independent Auditor's Report 1-2

Financial Statements

Statement of Financial Position3
Statement of Activities4-5
Statement of Cash Flows6
Statement of Functional Expenses7
Notes to Financial Statements.....8-14

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Alder Health Services, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Alder Health Services, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2015, and the related statements of activities, 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Basis for Qualified Opinion

Due to inadequate accounting controls in the system which process patient revenue, CareCloud, Alder Health Services was unable to provide adequate support for patient revenue and receivables. Due to this gap, management discontinued the use of this system subsequent to year end. We were therefore unable to form an opinion regarding these amounts.

Qualified Opinion

In our opinion, except for the possible effects of the matters described in the Basis for Qualified Opinion paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of Alder Health Services, Inc. as of June 30, 2015, 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.

Robert W. Harris & Company

May 3, 2016

Alder Health Services, Inc.
Statement of Financial Position
June 30, 2015

Assets	
Current Assets	
Cash & Cash Equivalents	\$ 113,838
Grant/Contract Receivables, net of Allowance for Doubtful Accounts (Note 4)	364,122
Patient Receivables, net of Allowance for Doubtful Accounts (Note 4)	4,584
Prepaid Expenses	21,171
Total Current Assets	<u>503,715</u>
Long-Term Assets	
Endowment Fund (Note 3)	24,168
Deposits - Security	8,486
Property and Equipment, net of accumulated depreciation of \$227,175 (Note 5)	60,663
Total Long-Term Assets	<u>93,317</u>
Total Assets	<u><u>\$ 597,032</u></u>
Liabilities and Net Assets	
Current Liabilities	
Line of Credit (Note 6)	40,146
Accounts Payable	237,380
Accrued Liabilities	18,485
Total Liabilities	<u>296,011</u>
Net Assets	
Unrestricted	268,075
Temporarily Restricted	8,778
Permanently Restricted	24,168
Total Net Assets	<u>301,021</u>
Total Liabilities and Net Assets	<u><u>\$ 597,032</u></u>

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

Alder Health Services, Inc.
Statement of Activities
For the Year Ended June 30, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating Revenues				
Contributions	\$ 25,026	\$ -	\$ -	\$ 25,026
Special Events	-	-	-	-
Grant Revenue				
HOPWA	-	-	-	-
Ryan White	232,819	-	-	232,819
Pennsylvania Department of Health	248,484	-	-	248,484
Other Grant Sources	63,345	-	-	63,345
United Way	-	-	-	-
Program Service Fees	171,802	-	-	171,802
Pharmacy Program Fees	1,286,160	-	-	1,286,160
United Way - Donor Choice	3,333	-	-	3,333
Miscellaneous Revenue	1,417	-	-	1,417
Total Revenues	<u>2,032,386</u>	<u>-</u>	<u>-</u>	<u>2,032,386</u>
Expenses				
Client Assistance	13,933	-	-	13,933
Health and Wellness Program	-	-	-	-
Conferences and Training	5,474	-	-	5,474
Contracted Services	39,060	-	-	39,060
Depreciation	19,391	-	-	19,391
Liability Insurance	11,935	-	-	11,935
Employee Benefits	65,039	-	-	65,039
Equipment Maintenance	24,472	-	-	24,472
Fundraising Expenses	3,940	-	-	3,940
Interest Expense	1,142	-	-	1,142
Occupancy	194,937	-	-	194,937
Office Supplies	12,273	-	-	12,273
Payroll & Payroll Taxes	766,865	-	-	766,865
Pharmacy Program Fees	923,177	-	-	923,177
Professional Fees	51,222	-	-	51,222
Public Relations	11,509	-	-	11,509
Supplies	4,138	-	-	4,138
Telephone	12,505	-	-	12,505
Travel	37,669	-	-	37,669
Total Expenses	<u>2,198,681</u>	<u>-</u>	<u>-</u>	<u>2,198,681</u>

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

Alder Health Services, Inc.
Statement of Activities
For the Year Ended June 30, 2015
(Continued)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Increase (Decrease) in Net Assets	(166,295)	-	-	(166,295)
Non-Operating Expenses				
Unrealized Gain/(Loss) on Investment	-	-	410	410
Realized Gain/(Loss)	-	-	37	37
Interest and Dividend Income	32	-	652	684
Investment Fees	-	-	(378)	(378)
Total Non-operating revenues	32	-	721	753
Net Assets released from restrictions				
Satisfaction of restrictions	-	-	-	-
Total Non-Operating Items	32	-	721	753
Increase (Decrease) in Net Assets	(166,263)	-	721	(165,542)
Net Assets - Beginning of Year	434,338	8,778	23,447	466,563
Net Assets - End of Year	\$ 268,075	\$ 8,778	\$ 24,168	\$ 301,021

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

Alder Health Services, Inc.
Statement of Cash Flows
For the Year Ended June 30, 2015

Cash Flows from Operating Activities	
Increase (decrease) in net assets	\$ (165,542)
Adjustment to reconcile change in net assets to net cash provided by (used in) operating activities:	
Depreciation	19,391
Bad Debt Expense	-
(Increase) Decrease in Assets	
Receivables	(30,294)
Prepaid Expenses	(10,030)
Increase (Decrease) in liabilities	
Accounts payable and accrued expenses	154,634
Net Cash provided by (used in) operating activities	<u>(31,841)</u>
Cash Flows from Investing Activities	
Change in investments	(720)
Increase in property & equipment	(4,488)
Net cash provided by (used in) investing activities	<u>(5,208)</u>
Cash Flows from Financing Activities	
Increase in line of credit	40,146
Net cash provided by (used in) Financing activities	<u>40,146</u>
Net Increase (Decrease) in Cash	3,097
Cash and Cash Equivalents - Beginning of Year	110,741
Cash and Cash Equivalents - End of Year	<u>\$ 113,838</u>

Interest paid during the year was \$1,142.

Income taxes paid during the year was \$0.

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

Alder Health Services, Inc.
Statement of Functional Expenses
For the Year Ended June 30, 2015

	Program	Management and General	Fundraising	Total
Expenses:				
Client Assistance	13,933	-	-	13,933
Conferences and Training	5,474	-	-	5,474
Contracted Services	39,060	-	-	39,060
Depreciation	19,391	-	-	19,391
Liability Insurance	11,935	-	-	11,935
Employee Benefits	63,088	1,301	650	65,039
Equipment Maintenance	24,472	-	-	24,472
Fundraising Expenses	-	-	3,940	3,940
Interest Expense	1,031	114	-	1,145
Occupancy	175,443	11,696	7,797	194,937
Office Supplies	8,591	1,841	1,841	12,273
Payroll & Payroll Taxes	743,265	14,774	8,823	766,862
Pharmacy Program Fees	923,177	-	-	923,177
Professional Fees	51,222	-	-	51,222
Public Relations	11,509	-	-	11,509
Supplies	2,897	621	621	4,138
Telephone	11,129	875	500	12,505
Travel	32,019	5,650	-	37,669
Total Expenses	<u>\$ 2,137,636</u>	<u>\$ 36,873</u>	<u>\$ 24,173</u>	<u>\$ 2,198,681</u>

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

Alder Health Services, Inc.
Notes to Financial Statements
June 30, 2015

Note 1: Summary of Significant Accounting Policies

Nature of Activities – Alder Health Services, Inc. is a non-profit corporation founded in 1985 and incorporated in 1987 as AIDS Community Alliance, Inc. In 2011, it changed its name to Alder Health Services, Inc. to reflect the expansion of support services and programs to its key constituency. Alder Health's purpose is to provide a network of services and programs focused on enhancing the health outcomes of individuals impacted by HIV/AIDS and members of the community who have traditionally been marginalized by the healthcare system. Alder Health receives a significant portion of revenue, from governmentally funded programs or grants. The Organization provides services in Adams, Bedford, Blair, Cumberland, Dauphin, Franklin, Fulton, Huntington, Juniata, Lancaster, Lebanon, Mifflin, Perry and York Counties.

Accounting Method – Alder Health Services, Inc. has adopted the accrual basis of accounting in accordance with generally accepted accounting principles. Accordingly, revenues are recognized when earned and expenses are recognized when incurred.

Basis of Presentation - Alder Health Services, Inc. reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Unrestricted Net Assets –are not subject to donor-imposed restrictions or such restrictions have expired.

Temporarily Restricted Net Assets – are subject to donor imposed stipulations that are released from restriction by passage of time or by action of the Organization.

Permanently Restricted Net Assets - are subject to donor imposed stipulations that the assets be maintained by the Organization permanently.

Support - The organization's policy is to report as unrestricted support contributions with donor imposed restrictions when these restrictions are met in the same year that the contribution is received.

Cash and Cash Equivalents- Alder Health Services, Inc. considers all assets with an initial maturity of three months or less to be cash equivalents.

Grants/Contracts Receivable- The Organization provides services under contracts or grants which have been billed but not paid for at year end.

Patient Revenue, Receivables and Allowance for Doubtful Accounts – During 2015 the Organization provided medical services to individuals. An outside service was used to process these transactions, bill insurance companies and assist in collections. Uninsured individuals were charged under a sliding scale based on income where up to 90 % of the patient's bill could be considered charity care. Additionally, Alder Health Services has established an allowance for doubtful accounts that represents management's estimate of bad debt that is inherent in patient accounts receivable at the balance sheet date. Management's policy is to review and adjust this amount periodically.

Alder Health Services, Inc.
Notes to Financial Statements
June 30, 2015

Note 1: Summary of Significant Accounting Policies (continued)

Investments- The Organization reports investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of Financial Position. Unrealized gains and losses are included in the change in net assets.

Market Risk- Unlike cash and cash equivalents on deposit with banks and similar financial institutions, investments which are held in common stock, mutual funds and other similar investment instruments are not federally insured and carry a certain amount of market risk which could be material to these financial statements.

Property and Equipment – Property, plant and equipment valued at \$1,000 or more and with an estimated life of greater than one year are recorded at cost less depreciation and amortization. Depreciation and amortization are primarily accounted for on the straight-line method based on estimated useful lives. Expenditures which extend the life of the asset are capitalized whereas maintenance and repairs are expensed as incurred.

Contributed Service - Contributed services are reflected in the accompanying financial statements at their estimated fair value at the date of receipt to the extent they create or enhance non-financial assets or require specialized skills which, if not provided by donation, would have to be purchased by the Organization. *See Note 8.*

Advanced Grants - Advanced grants represent funds received under grant contracts in which the expenses associated with the reimbursement have not been recognized.

Employee Leave Accrual - Alder Health Services, Inc. permits employees to carryover a maximum of 40 hours of paid leave time. An accrual exists for the amount that employees earned but which was not paid at the end of the fiscal year.

Income Taxes- Alder Health Services, Inc. is a not-for-profit entity as described in Section 501 (c) (3) of the Internal Revenue Code and is exempt from federal income taxes on related income pursuant to Section 509 (a) of the Code. The Organization is required to file other types of tax returns. The Organization's open audit periods are 2012 through 2014. The organization believes it has appropriate support for tax positions taken and, as such, does not have any uncertain tax positions that are material to the financial statements.

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

Subsequent Events - In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through May 3, 2016, the date the financial statements were available to be issued.

Alder Health Services, Inc.
Notes to Financial Statements
June 30, 2015

Note 2: Concentrations of Credit Risk

The Organization maintains a significant portion of its cash and cash equivalents in financial instruments with bank deposit institutions, but manages accounts to minimize the levels of deposits exceeding federally insured limits. Historically, Alder Health Services, Inc. has not experienced any losses in said accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents. At June 30, 2015 cash and cash equivalents were within federally insured limits.

Note 3: Investments

Endowment Fund- In August 2001 the Organization received a \$10,000 endowment. The money has been placed with the Foundation for Enhancing Communities. Approximately 6% of the annual fund balance is available for grants each year. No grants were dispersed in the year ended June 30, 2015, although \$1,197 was available. The fund incurred a net gain of \$447. The fair market value of the fund on June 30, 2015 was \$24,168.

Alder Health Services relies on the Foundation for Enhancing Communities to determine fair value based on:

- Level 1 – Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 – Include other inputs that are directly or indirectly observable in the marketplace.
- Level 3 – Unobservable inputs which are supported by little or no market activity.

The fair value hierarchy also requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. Observable inputs reflect the assumptions market participants would use in pricing the asset or liability developed from sources independent of the reporting entity; and unobservable inputs reflect the reporting entity's own assumptions about the assumptions market participants would use in the pricing the asset or liability developed based on the best information available in the circumstances.

Equity securities listed or traded on any national market or exchange are valued at the last sales price as of the close of the principal securities exchange on which such securities are traded. Such marketable securities are classified as level 1 of the valuation hierarchy.

Narrowly traded debt securities, other than money market instruments, are generally valued at the most recent bid price of the equivalent quoted yield for such securities (or those of comparable maturity, quality, and type). Such debt securities are generally classified within level 2 of the valuation hierarchy.

Unrealized gains and losses are included in the change in net assets.

Realized and unrealized gains and losses on marketable securities are determined by using specific identification. All investment income and net increase (decrease) on investments are considered unrestricted unless the terms of the gift impose a restriction on the current use of the investment income.

Alder Health Services, Inc.
Notes to Financial Statements
June 30, 2015

Note 4: Receivables

Grants/contract receivable at June 30, 2015 consists of:

Family Health Council	\$	140,564
Pennsylvania Department of Health		10,467
Various D&A Commissions		15,523
Coordinated Care Network billings		201,906
		<u>201,906</u>
	\$	<u>368,460</u>

Patient receivables at June 30, 2015 consist of:

Third Party Billings for Patients	4,584
Individual Patients	-
	<u>4,584</u>
	\$ <u>4,584</u>

A reserve of \$4,338 has been established as of June 30, 2015 for these accounts.

Alder Health Services, Inc.
Notes to Financial Statements
June 30, 2015

Note 5: Equipment and Leasehold Improvements

Equipment and Leasehold Improvements consist of the following:

	July 1, 2015	Additions	Transfers and Retirements	June 30, 2015	Useful Life
NonDepreciable Assets					
Land	\$ -	\$ -	\$ -	\$ -	
Depreciable Assets					
Office equipment	100,135	1,911	-	102,046	5-10 years
Medical Equipment	35,406	-	-	35,406	5 years
Leasehold Improvements	67,376	-	-	67,376	15 years
Computer Software	71,657	2,577	-	74,234	5-10 years
Medical Software	8,776	-	-	8,776	5 years
	283,350	4,488	-	287,838	
Less accumulated depreciation	(207,784)	(19,391)	-	(227,175)	
Property, Plant and Equipment - Net	\$ 75,566	\$ (14,903)	\$ -	\$ 60,663	

Depreciation expense totals \$19,391 for the year ended June 30, 2015. Alder Health has no assets restricted by donor, purchased with restricted assets, or where title may revert to a grantor or donor.

Note 6: Notes Payable

The Organization has a line of credit totaling \$50,000 at an adjustable interest rate that is based on the prime rate. The interest rate at the end of the year was 3.5%. The balance at June 30, 2015 was \$40,146. Interest expense on the loan totaled \$1,142 in 2015.

Alder Health Services, Inc.
Notes to Financial Statements
June 30, 2015

Note 7: Operating Leases

Alder Health Services, Inc. leases office space in Harrisburg and Lancaster under the terms of operating leases. A lease commenced on March 2010 at 100 N Cameron Street, Harrisburg and will expire in 2018. During 2012, additional space adjacent to the original lease was added under two separate addendums which expire in 2018. The lease for the Lancaster office expires in May 2022. The total minimum rental commitments are as follows:

Year ended June 30, 2016	183,804
2017	169,023
2018	83,186
2019	85,663
2020	88,249
later years	<u>168,507</u>
Total Lease Commitments	<u><u>\$ 778,432</u></u>

Total rental expense for the year ended June 30, 2015 was \$178,964.

Note 8: Contributed Services

The organization recognized contribution revenue for professional services received at the fair value of those services during the year ending June 30, 2015. These services include the following items:

Auditing services	<u>\$ 6,056</u>
Total contributed services	<u><u>\$ 6,056</u></u>

Note 9: Retirement Plan

Effective June 2013, Alder Health Services established a simple individual retirement account for the benefit of its employees. During 2015, no employer contribution was made to this plan.

Alder Health Services, Inc.
Notes to Financial Statements
June 30, 2015

Note 10: Litigation and Contingencies

During the normal course of performing its duties to the general public, which it serves, the Organization is subject to potential threatened lawsuits and complaints. At May 3, 2016, the date the financial statements were available to be issued, there were no claims that management feels would have a material effect on the Organization's financial position.

Note 11: Operations

The continuation of an entity's operations is usually assumed in financial accounting in the absence of evidence to the contrary. However, an operation which depends on support from agencies of the Government is always subject to legislative action which could significantly affect the amount of support it receives.

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

Note 12: Contracted Service

Subsequent to year-end, Alder Health Services entered into a one-year renewable contract agreement with Athena Health to provide a billing system and related support for processing, recording, collecting and reporting on patient revenue and receivables. The cost of this contract is based a percentage of the monies received for any health care services processed through the Athena Health system, subject to a minimum fee.