

Alder Health Services, Inc.

Audited Financial Statements
For the Year Ended June 30, 2016

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ROBERT W. MORRIS

& COMPANY P.C.
CERTIFIED PUBLIC ACCOUNTANTS

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, 2016, 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 audit opinion.

19 East Main Street, P.O. Box 68
New Bloomfield, PA 17068
717.582.8135 | Fax 717.582.7392
robertmorriscpa.com

Member: American Institute of Certified Public Accountants
Pennsylvania Institute of Certified Public Accountants

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Alder Health Services, Inc. as of June 30, 2016, 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

January 19, 2017

Alder Health Services, Inc.
Statement of Financial Position
June 30, 2016

| | |
|--|------------|
| Assets | |
| Current Assets | |
| Cash and Cash Equivalents | \$ 47,766 |
| Restricted Cash and Cash Equivalents | 171,620 |
| Grant/Contract Receivables, net of Allowance for Doubtful Accounts | 165,783 |
| Patient Receivables, net of Allowance for Doubtful Accounts | 305,073 |
| Prepaid Expenses | 31,274 |
| Total Current Assets | 721,516 |
| Long-Term Assets | |
| Beneficial Interest in Fund Held at Community Foundation | 23,541 |
| Deposits - Security | 8,486 |
| Property and Equipment, net of Accumulated Depreciation | 50,535 |
| Total Long-Term Assets | 82,562 |
| Total Assets | \$ 804,078 |
| Liabilities and Net Assets | |
| Current Liabilities | |
| Accounts Payable | \$ 275,552 |
| Accrued Liabilities | 15,753 |
| Unearned Grant Revenue | 68,777 |
| Line of Credit | - |
| Total Current Liabilities | 360,082 |
| Total Liabilities | 360,082 |
| Net Assets | |
| Unrestricted | 411,677 |
| Temporarily Restricted | 8,778 |
| Permanently Restricted | 23,541 |
| Total Net Assets | 443,996 |
| Total Liabilities and Net Assets | \$ 804,078 |

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

Alder Health Services, Inc.
Statement of Activities
For the Year Ended June 30, 2016

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---------------------------------|------------------|---------------------------|---------------------------|------------------|
| Operating Revenues | | | | |
| Contributions | \$ 19,921 | \$ - | \$ - | \$ 19,921 |
| Special Events | 1,097 | - | - | 1,097 |
| Grant Revenue | | | | |
| PA Department of Health AIDS | | - | - | - |
| State/Ryan White/Prevention | 490,037 | - | - | 490,037 |
| Other Grant Sources | 120,902 | - | - | 120,902 |
| Program Service Fees | 312,479 | - | - | 312,479 |
| Pharmacy Program Fees | 2,450,097 | - | - | 2,450,097 |
| United Way | 1,774 | - | - | 1,774 |
| Miscellaneous Revenue | 1,666 | - | - | 1,666 |
| Total Revenues | <u>3,397,973</u> | <u>-</u> | <u>-</u> | <u>3,397,973</u> |
| Expenses | | | | |
| Client Assistance | 42,447 | - | - | 42,447 |
| Bad Debt Expense | 78,492 | - | - | 78,492 |
| Conferences and Training | 6,824 | - | - | 6,824 |
| Subcontracts | 93,770 | - | - | 93,770 |
| Depreciation | 11,733 | - | - | 11,733 |
| Dues and Subscriptions | 170 | - | - | 170 |
| Employee Benefits | 93,011 | - | - | 93,011 |
| Equipment Maintenance | 5,333 | - | - | 5,333 |
| Fundraising Expenses | 7,675 | - | - | 7,675 |
| Interest Expense | 1,097 | - | - | 1,097 |
| Miscellaneous Expenses | 119 | - | - | 119 |
| Occupancy | 197,762 | - | - | 197,762 |
| Organizational Dues | 2,077 | - | - | 2,077 |
| Postage | 1,661 | - | - | 1,661 |
| Payroll and Payroll Taxes | 793,251 | - | - | 793,251 |
| Pharmacy Program Fees | 1,812,007 | - | - | 1,812,007 |
| Professional Fees and Insurance | 51,420 | - | - | 51,420 |
| Public Relations | 6,689 | - | - | 6,689 |
| Supplies | 16,520 | - | - | 16,520 |
| Telephone and Internet | 13,555 | - | - | 13,555 |
| Travel | 18,812 | - | - | 18,812 |
| Total Expenses | <u>3,254,425</u> | <u>-</u> | <u>-</u> | <u>3,254,425</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, 2016
(Continued)

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|-------------------|---------------------------|---------------------------|-------------------|
| Increase (Decrease) in Net Assets | 143,548 | - | - | 143,548 |
| Non-Operating Revenues (Expenses) | | | | |
| Unrealized Gain/(Loss) on Beneficial | | | | |
| Interest in Fund at Foundation | - | - | (1,058) | (1,058) |
| Realized Gain/(Loss) on Beneficial | - | - | 116 | 116 |
| Interest in Fund at Foundation | | | | |
| Interest and Dividend Income | 54 | - | 712 | 766 |
| Investment Fees | - | - | (397) | (397) |
| Total Non-Operating Revenues (Expenses) | 54 | - | (627) | (573) |
| Net Assets Released from Restrictions | | | | |
| Satisfaction of Restrictions | - | - | - | - |
| Total Non-Operating Items | 54 | - | (627) | (573) |
| Increase (Decrease) in Net Assets | 143,602 | - | (627) | 142,975 |
| Net Assets - Beginning of Year | 268,075 | 8,778 | 24,168 | 301,021 |
| Net Assets - End of Year | <u>\$ 411,677</u> | <u>\$ 8,778</u> | <u>\$ 23,541</u> | <u>\$ 443,996</u> |

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, 2016

| | |
|---|-------------------|
| Cash Flows from Operating Activities | |
| Increase (Decrease) in Net Assets | \$ 142,975 |
| Adjustment to Reconcile Change in Net Assets to Net Cash Provided by (Used in) Operating Activities: | |
| Depreciation | 11,733 |
| Bad Debt Expense | 78,492 |
| (Increase) Decrease in Assets | |
| Receivables | (180,642) |
| Prepaid Expenses | (10,103) |
| Increase (Decrease) in Liabilities | |
| Accounts Payable and Accrued Expenses | 35,440 |
| Unearned Grant Revenue | 68,777 |
| Net Cash Provided by (Used in) Operating Activities | <u>146,672</u> |
| Cash Flows from Investing Activities | |
| Change in Interest in Fund Held at Foundation | 627 |
| Increase in Property and Equipment | (1,605) |
| Net cash Provided by (Used in) Investing Activities | <u>(978)</u> |
| Cash Flows from Financing Activities | |
| Repayment of Line of Credit | (40,146) |
| Net cash Provided by (Used in) Financing Activities | <u>(40,146)</u> |
| Net Increase (Decrease) in Cash and Cash Equivalents | 105,548 |
| Cash and Cash Equivalents - Beginning of Year | 113,838 |
| Cash and Cash Equivalents - End of Year | <u>\$ 219,386</u> |

Supplemental Information:

Interest paid during the year was \$1,097.

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, 2016

| | <u>Program</u> | <u>Management and General</u> | <u>Fundraising</u> | <u>Total</u> |
|---------------------------|---------------------|-----------------------------------|--------------------|---------------------|
| Expenses: | | | | |
| Client Assistance | \$ 42,447 | \$ - | \$ - | \$ 42,447 |
| Bad Debt Expense | 78,492 | - | - | 78,492 |
| Conferences and Training | 6,824 | - | - | 6,824 |
| Subcontracts | 93,770 | - | - | 93,770 |
| Depreciation | 11,733 | - | - | 11,733 |
| Dues and Subscriptions | 170 | - | - | 170 |
| Employee Benefits | 89,743 | 2,038 | 1,230 | 93,011 |
| Equipment Maintenance | 5,333 | - | - | 5,333 |
| Fundraising Expenses | - | - | 7,675 | 7,675 |
| Interest Expense | 987 | 110 | - | 1,097 |
| Miscellaneous Expense | 119 | - | - | 119 |
| Occupancy | 177,986 | 11,866 | 7,910 | 197,762 |
| Organizational Dues | 2,077 | - | - | 2,077 |
| Postage | 1,495 | 166 | - | 1,661 |
| Payroll and Payroll Taxes | 765,378 | 17,379 | 10,493 | 793,251 |
| Pharmacy Program Fees | 1,812,007 | - | - | 1,812,007 |
| Professional Fees | 46,320 | 5,100 | - | 51,420 |
| Public Relations | 6,689 | - | - | 6,689 |
| Supplies | 11,564 | 2,478 | 2,478 | 16,520 |
| Telephone | 12,064 | 949 | 542 | 13,555 |
| Travel | 15,990 | 2,822 | - | 18,812 |
| Total Expenses | <u>\$ 3,181,188</u> | <u>\$ 42,907</u> | <u>\$ 30,329</u> | <u>\$ 3,254,425</u> |

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

Alder Health Services, Inc.
Notes to Financial Statements
June 30, 2016

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. These assets total \$8,778 and represent funds that a donor provided for housing.

Permanently Restricted Net Assets - are subject to donor imposed stipulations that the assets be maintained by the Organization permanently. These assets total \$23,541 and represent funds held at a community foundation.

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 financial instruments with an initial maturity of three months or less to be cash equivalents. Restricted cash and cash equivalents represents amounts restricted for spending under a grant or contract agreement but which will be available in the current year.

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

Alder Health Services, Inc.
Notes to Financial Statements
June 30, 2016

Note 1: Summary of Significant Accounting Policies (continued)

Patient Revenue, Receivables and Allowance for Doubtful Accounts – During 2016, 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. 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.

Fair Value Measurements- The Organization reports its investments at fair value. Under the fair value measurement rules, the value of the investment is based on a hierarchy whereby the use of observable inputs is maximized and the use of unobservable inputs is minimized by using observable inputs when available. 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 pricing the asset or liability developed based on the best information available in the circumstances.

The hierarchy is broken down into three levels based on the transparency of inputs as follows:

- 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.

For example, 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.

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.

Alder Health Services, Inc.
Notes to Financial Statements
June 30, 2016

Note 1: Summary of Significant Accounting Policies (continued)

Unearned Grant Revenue - Unearned grant revenue 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 into the subsequent calendar year. 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 2013 through 2015. 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 January 19, 2017, the date the financial statements were available to be issued.

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, 2016, cash and cash equivalents were within federally insured limits.

Note 3: Beneficial Interest in Assets Held at the Foundation for Enhancing Communities

In August 2001 the Organization received a \$10,000 endowment. The money has been placed with the Foundation for Enhancing Communities (Foundation), which is holding it for the benefit of the Organization. The Organization has granted the Foundation variance power which gives the Foundation's Board of Trustees the power to use the Fund for other purposes in certain circumstances. The fund is subject to the Foundation's investment and spending policies which result in approximately 6% of the average fund balance being available for grants each year. Under that policy, \$1,197 of grants were available in the year ended June 30, 2016, and reinvested. The fund incurred a net loss of \$627. The Organization reports the fair value of the Fund as Beneficial Interest in Assets Held at the Foundation for Enhancing Communities in the statement of financial position and reports distributions received as investment income. The fair market value of the fund on June 30, 2016 was \$23,541 and is reflected as permanently restricted net assets.

Alder Health Services, Inc.
Notes to Financial Statements
June 30, 2016

**Note 3: Beneficial Interest in Assets Held at the Foundation for Enhancing Communities
(continued)**

Fair Market Value

The beneficial interest in assets held at the Foundation for Enhancing Communities has been valued, as a practical expedient, at the fair value of the Organization's share of the Foundation's investment pool as of June 30, 2016. The Foundation values securities and other financial instruments on a fair value basis of accounting. The estimated fair values of certain investments of the Foundation, which include floating rate demand notes and tuition credits, are determined by the management of the Foundation and may not reflect amounts that could be realized upon immediate sale, nor amounts that ultimately may be realized. Accordingly, the estimated fair values may differ significantly from the values that would have been used had a ready market existed for these investments. The Foundation's investments are composed approximately of 1% financial common stock, 86% equity mutual funds, 12% fixed mutual funds, 1% tuition credits and less than 1% floating rate demand notes. The beneficial interest in assets held at the Foundation for Enhancing Communities is not redeemable by the Organization.

| Description | Fair Value Measurements Using | | | |
|---|-------------------------------|---|--|---|
| | Total | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Beneficial Interest in Assets Held at the Foundation for Enhancing Communities | \$ 23,541 | \$ - | \$ - | \$ 23,541 |

Financial instruments classified as Level 3 in the fair value hierarchy described in Note 1 represent the Organization's investment in financial instruments in which management has used at least one significant unobservable input in the valuation model. The following table represents a reconciliation of the activities for Level 3 financial instruments:

| | |
|-------------------------------|-----------|
| Balance at July 1, 2015 | \$ 24,168 |
| Share of depreciation of fund | (627) |
| Balance at June 30, 2016 | \$ 23,541 |

The components of the net return (loss) on investments, including Level 3 investments, as reported in the accompanying statements of activities are as follows for the year ended June 30, 2016:

| | |
|--------------------------|------------|
| Gain/Loss Unrealized | \$ (1,058) |
| Interest/Dividends | 712 |
| Gain/Loss Realized | 116 |
| TFEC Administrative Fees | (397) |
| Balance at June 30, 2016 | \$ (627) |

Alder Health Services, Inc.
Notes to Financial Statements
June 30, 2016

Note 4: Receivables

Grants/contract receivable at June 30, 2016 consists of:

| | | |
|-----------------------------------|-----------|----------------|
| Family Health Council | \$ | 129,698 |
| Pennsylvania Department of Health | | 5,549 |
| Various D&A Commissions | | 21,165 |
| Athena Health | | 11,669 |
| Other | | 1,540 |
| | <u>\$</u> | <u>169,621</u> |

Patient receivables at June 30, 2016 consist of amounts billed to insurance companies or to individuals. An allowance for doubtful accounts of \$10,000 and \$3,838 has been established as of June 30, 2016 for the patient and contract receivables, respectively.

Note 5: Property and Equipment

Property and equipment consist of the following:

| | <u>July 1, 2015</u> | <u>Additions</u> | <u>Transfers and Retirements</u> | <u>June 30, 2016</u> | <u>Useful Life</u> |
|-------------------------------|---------------------|--------------------|--|----------------------|--------------------|
| Office equipment | \$ 102,046 | \$ - | \$ - | \$ 102,046 | 5-10 years |
| Medical Equipment | 35,406 | - | - | 35,406 | 5 years |
| Leasehold Improvements | 67,376 | - | - | 67,376 | 15 years |
| Computers and Software | 83,010 | 1,605 | - | 84,615 | 5 years |
| | <u>287,838</u> | <u>1,605</u> | <u>-</u> | <u>289,443</u> | |
| Less accumulated depreciation | <u>(227,175)</u> | <u>(11,733)</u> | <u>-</u> | <u>(238,908)</u> | |
| Property and Equipment, Net | <u>\$ 60,663</u> | <u>\$ (10,128)</u> | <u>\$ -</u> | <u>\$ 50,535</u> | |

Depreciation expense totals \$11,733 for the year ended June 30, 2016. Alder Health has no assets restricted by donor, purchased with restricted assets, or where title may revert to a grantor or donor.

Alder Health Services, Inc.
Notes to Financial Statements
June 30, 2016

Note 6: Notes Payable

The Organization has an unsecured 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 3.75%. The balance at June 30, 2016 was \$0. Interest expense on the loan totaled \$1,097 in 2016.

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 2017. 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, 2017 | \$ 169,023 |
| 2018 | 83,186 |
| 2019 | 85,663 |
| 2020 | 88,249 |
| 2021 | 90,893 |
| 2022 | <u>77,614</u> |
| Total Lease Commitments | <u>\$ 594,628</u> |

Total rental expense for the year ended June 30, 2016 was \$182,398, included in occupancy expense.

Note 8: 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 January 19, 2017, 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.

Alder Health Services, Inc.
Notes to Financial Statements
June 30, 2016

Note 9: Risks and Uncertainties

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.