

CARE ALLIANCE
CONSOLIDATED FINANCIAL REPORT
OCTOBER 31, 2019 and 2018

CARE ALLIANCE

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Independent Auditors' Report

To the Board of Directors
Care Alliance
Cleveland, Ohio

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Care Alliance (a nonprofit organization), which comprise the consolidated balance sheets as of October 31, 2019 and 2018, and the related consolidated statements of operations and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Care Alliance as of October 31, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 consolidated 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 December 30, 2020 on our consideration of Care Alliance'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 solely 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 the effectiveness of Care Alliance's 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 Care Alliance's internal control over financial reporting and compliance.



Cleveland, Ohio
December 30, 2020

CARE ALLIANCE
CONSOLIDATED BALANCE SHEETS

October 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,169,758	\$ 295,835
NMTC restricted funds	119,921	187,888
Total cash	1,289,679	483,723
Contracts receivable	168,020	96,968
DHHS grant receivable	600	81,261
Patient services receivable, net	1,053,309	1,303,984
Contributions receivable	-	529,098
Inventory and other	132,791	45,003
Total current assets	2,644,399	2,540,037
INVESTMENTS	2,129,334	4,586,124
NOTE RECEIVABLE	6,724,000	6,724,000
PROPERTY AND EQUIPMENT, NET	10,177,473	10,845,558
Total assets	<u>\$ 21,675,206</u>	<u>\$ 24,695,719</u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 312,193	\$ 597,971
Accrued compensation	658,726	588,500
Deferred revenue	-	7,500
Total current liabilities	970,919	1,193,971
NMTC LOANS PAYABLE	9,700,000	9,700,000
FORGIVABLE LOAN PAYABLE	180,000	180,000
Total liabilities	10,850,919	11,073,971
NET ASSETS		
Without donor restrictions	10,675,069	13,372,876
With donor restrictions	149,218	248,872
Total net assets	10,824,287	13,621,748
Total liabilities and net assets	<u>\$ 21,675,206</u>	<u>\$ 24,695,719</u>

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

CARE ALLIANCE

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS

Years Ended October 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
REVENUES WITHOUT DONOR RESTRICTIONS		
Contributions	\$ 71,177	\$ 105,657
DHHS grants	4,534,235	4,523,365
Patient services, net	6,359,041	6,938,938
Contract services	287,276	325,131
Donated services	159,806	130,484
Interest income from note receivable	67,240	67,240
Miscellaneous income	606,501	213,421
Net assets released from restrictions	<u>569,165</u>	<u>755,111</u>
	12,654,441	13,059,347
EXPENSES		
Program	14,107,990	12,794,094
General and administrative	1,471,297	1,264,414
Fundraising	<u>127,264</u>	<u>103,068</u>
Total expenses	<u>15,706,551</u>	<u>14,161,576</u>
OPERATING LOSS	(3,052,110)	(1,102,229)
INVESTMENT RETURN	<u>354,303</u>	<u>42,249</u>
CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	(2,697,807)	(1,059,980)
NET ASSETS WITH DONOR RESTRICTIONS		
Contributions	469,511	702,157
Net assets released from restrictions	<u>(569,165)</u>	<u>(755,111)</u>
	<u>(99,654)</u>	<u>(52,954)</u>
CHANGE IN NET ASSETS	(2,797,461)	(1,112,934)
NET ASSETS – BEGINNING OF YEAR	<u>13,621,748</u>	<u>14,734,682</u>
NET ASSETS – END OF YEAR	<u>\$ 10,824,287</u>	<u>\$ 13,621,748</u>

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

CARE ALLIANCE

CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES

Years Ended October 31, 2019 and 2018

	Program Services	General and Administrative	Fundraising	Total
Year Ended October 31, 2019				
Salaries and wages	\$ 7,266,052	\$ 659,945	\$ 53,625	\$ 7,979,622
Fringe benefits	1,523,722	130,927	14,805	1,669,454
Consultants and professional services	1,508,968	53,897	17,168	1,580,033
Consumable supplies	1,163,648	48,606	2,059	1,214,313
Depreciation and amortization	583,515	136,611	5,932	726,058
Bad debt	685,742			685,742
Occupancy	523,500	89,366	13,455	626,321
Other	187,875	179,371	3,711	370,957
Repairs and maintenance	140,683	27,165	3,834	171,682
Telephone	127,176	31,723	3,290	162,189
Donated services	159,574	222	10	159,806
Travel, conferences and meetings	61,589	44,854	821	107,264
Printing, postage, publication and recruitment	47,410	30,728	6,640	84,778
Interest	55,590	11,989	521	68,100
Insurance	51,185	6,108	872	58,165
Staff training	21,761	19,785	521	42,067
	<u>\$ 14,107,990</u>	<u>\$ 1,471,297</u>	<u>\$ 127,264</u>	<u>\$ 15,706,551</u>
Year Ended October 31, 2018				
Salaries and wages	\$ 6,647,154	\$ 633,260	\$ 28,580	\$ 7,308,994
Fringe benefits	1,643,006	135,303	14,264	1,792,573
Consultants and professional services	1,484,273	56,042	30,426	1,570,741
Consumable supplies	1,201,007	34,751	1,973	1,237,731
Depreciation and amortization	595,420	124,699	4,816	724,935
Occupancy	530,631	80,222	12,105	622,958
Other	148,786	41,999	2,714	193,499
Repairs and maintenance	108,199	19,476	2,576	130,251
Telephone	123,876	27,811	2,707	154,394
Donated services	129,375	1,068	41	130,484
Travel, conferences and meetings	44,921	47,812	63	92,796
Printing, postage, publication and recruitment	23,809	30,375	1,309	55,493
Interest	55,769	11,680	451	67,900
Insurance	45,743	5,458	780	51,981
Staff training	12,125	14,458	263	26,846
	<u>\$ 12,794,094</u>	<u>\$ 1,264,414</u>	<u>\$ 103,068</u>	<u>\$ 14,161,576</u>

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

CARE ALLIANCE

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended October 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (2,797,461)	\$ (1,112,934)
Adjustments to reconcile change in net assets to net cash (used) provided by operating activities:		
Depreciation and amortization	726,058	724,935
Realized and unrealized holding gains	(258,272)	(118,860)
Changes in operating assets and liabilities:		
Contributions receivable	529,098	176,964
DHHS grants receivable	80,661	(81,261)
Patient services receivable, net	250,675	(249,614)
Contracts receivable	(71,052)	65,837
Inventory and other	(87,788)	32,494
Accounts payable and accrued expenses	(285,778)	321,982
Accrued compensation	70,226	16,718
Deferred revenue	(7,500)	(760,620)
Total adjustments	<u>946,328</u>	<u>128,575</u>
Net cash used in operating activities	<u>(1,851,133)</u>	<u>(984,359)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from investments, net	2,715,062	878,297
Purchase of fixed assets	<u>(57,973)</u>	<u>(161,435)</u>
Net cash provided by investing activities	<u>2,657,089</u>	<u>716,862</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	805,956	(267,497)
CASH AND CASH EQUIVALENTS – BEGINNING	<u>483,723</u>	<u>751,220</u>
CASH AND CASH EQUIVALENTS – ENDING	<u>\$ 1,289,679</u>	<u>\$ 483,723</u>
Supplemental disclosure of cash flow information:		
Cash paid during the year for:		
Interest	\$ 68,100	\$ 67,900

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

CARE ALLIANCE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Organization

Care Alliance (the "Agency") was organized in Ohio as a not-for-profit corporation to provide healthcare and related services to people who need them most, regardless of their ability to pay, in a manner that is cost effective and that empowers people to improve their quality of life. The Agency serves individuals in the Cleveland, Ohio area.

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

In 2014, the Agency formed a Special Purpose Entity, Alliance for a Bright Future, Inc., that is considered a Qualified Active Low-Income Community Business.

Note 2. Significant Accounting Policies

A. Basis of Accounting and Presentation – The consolidated financial statements of the Agency have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America and include the accounts of the Agency and Alliance for a Bright Future, Inc., its wholly owned subsidiary. All significant intercompany activity has been eliminated in consolidation.

The Agency has reported information regarding its financial position and activities according to two classes of net assets: without donor restrictions and with donor restrictions.

Net assets without donor restrictions are available for use in general operations and not subject to donor-imposed restrictions.

Net assets with donor restrictions are subject to donor-imposed restrictions. Some restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

B. Cash and Cash Equivalents – The Agency maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Agency has not experienced any losses in such accounts. All highly liquid investments with maturities of three months or less when purchased are considered to be cash equivalents.

C. Property and Equipment – Property and equipment is recorded at cost or, if donated, at the fair value at the date of donation. Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets ranging from 5 to 25 years. Building improvements are amortized on a straight-line basis over the estimated useful life of the improvement. The Agency capitalizes all purchases of property and equipment equal to or in excess of \$5,000.

CARE ALLIANCE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 2. Significant Accounting Policies (Continued)

C. Property and Equipment (Continued)

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

D. Contributions – Contributions are recorded at fair value when received or pledged. All contributions are considered to be available without donor restriction unless specifically restricted by the donor.

E. Grants Receivable – Grants receivable consist of costs under the grant agreements which were incurred prior to year-end for which payment has not been received.

F. Patient Services Receivable and Allowance for Doubtful Accounts – Patient services receivable are reported at their outstanding unpaid principal balances reduced by an allowance for doubtful accounts. The Agency estimates doubtful accounts based on historical bad debts, factors related to specific payors' ability to pay and current economic trends. The Agency writes off accounts receivable against the allowance when a balance is determined to be uncollectible. Recoveries of receivables previously written off are recorded when received.

G. Investments and Investment Income – Investments are recorded at the readily determinable fair value in the consolidated balance sheets. Investment gain or loss includes dividend, interest and other investment income net of fees, and realized and unrealized gains and losses on investments carried at fair value. Investment return is included in changes in net assets.

H. Fair Value of Financial Instruments – The fair values of cash and cash equivalents, accounts receivable, inventory, accounts payable and other short-term obligations approximate their carrying values because of the short maturity of these financial instruments. The carrying values of long-term obligations approximate their fair value based on the Agency's current incremental borrowing rates available for similar borrowings.

The Agency estimates the fair value of financial instruments using available market information and other generally accepted valuation methodologies. Fair value is defined as the price that would be received to sell an asset or would be paid to transfer a liability in an orderly transaction between market participants at the measurement date. The inputs used to measure fair value are classified into three levels:

Level 1 – Quoted market prices in active markets for identical assets and liabilities

Level 2 – Observable market-based inputs or unobservable inputs that are corroborated by market data

Level 3 – Unobservable inputs in which little or no market data exists

CARE ALLIANCE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 2. Significant Accounting Policies (Continued)

H. Fair Value of Financial Instruments (Continued)

The asset's fair value measurement level is based on the lowest level of any input that is significant to the fair value measurement.

The following tables set forth by level the Agency's assets and liabilities that are accounted for at a fair value on a recurring basis as of October 31, 2019 and 2018:

Assets at Market Value as of October 31, 2019				
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 41,950			\$ 41,950
Fixed income	1,666,861			1,666,861
Equities	420,523			420,523
	<u>\$ 2,129,334</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,129,334</u>

Assets at Market Value as of October 31, 2018				
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 21,949			\$ 21,949
Fixed income	2,189,020			2,189,020
Equities	2,375,155			2,375,155
	<u>\$ 4,586,124</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,586,124</u>

- I. Grant Revenue – Revenue from government grants and contracts designated for use in specific activities is recognized in the period when expenditures have been incurred in compliance with the grantor's restrictions. Grants and contracts awarded 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. At October 31, 2019 and 2018, the Agency has received grants and contracts from governmental entities in the aggregate amount of \$1,537,597 and \$1,053,645, respectively, which have not been recorded in these consolidated financial statements as they have not been earned. These grants require the Agency to provide certain healthcare services and to perform certain capital development during specified periods. If such requirements are not performed during the periods, the governmental entities are not obligated to expend the funds allotted under the grants.
- J. Deferred Revenue – Cash received in excess of revenue recognized is recorded as deferred revenue. At October 31, 2019, there was \$-0- deferred revenue of cash received related to grants in advance of revenue being recognized. At October 31, 2018, deferred revenue consisted of \$7,500 of cash received related to grants in advance of revenue being recognized.

CARE ALLIANCE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 2. Significant Accounting Policies (Continued)

- K. Patient Services Revenue – Patient services revenue is reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered. Patient services revenue is recorded at published charges with contractual allowances deducted to arrive at net patient services revenue.
- L. Donated Services – Contributions of donated services are reported as revenue and expenses at fair value if such services create or enhance nonfinancial assets, require special skills and are provided by individuals possessing such special skills, or would typically need to be purchased by the Agency if they had not been donated. The Agency received donated services from numerous professionals, from space costs and from laboratory testing during the year in connection with certain program activities.
- M. Use of Estimates – The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.
- N. Tax Status – The Agency is incorporated as a not-for-profit corporation under the laws of the State of Ohio and is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (the "Code"). The Agency believes that there is appropriate support for any tax positions taken and, as such, does not have any uncertain tax positions that are material to the financial statements.
- O. Change in Accounting Principle – On August 18, 2016, FASB issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources and the lack of consistency in the type of information provided about expenses and investment return. The Agency has implemented ASU 2016-14 and adjusted the presentation in these consolidated financial statements accordingly. The ASU has been applied retrospectively to all periods presented.
- P. Subsequent Events – The Agency has evaluated subsequent events for potential recognition and/or disclosure through December 30, 2020, the date the consolidated financial statements were available to be issued.
- Q. Reclassifications – Certain prior year amounts have been reclassified to conform with current year presentation.
- R. Functional Expenses – The functional classification of expenses is a method of grouping expenses according to the purpose or activity for which costs are incurred. Certain expenses can be directly allocated to a program or function. The Agency allocates all other expenses based upon an estimated proportion of staff time spent on the related function.

CARE ALLIANCE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 3. Restricted Funds

Restricted cash accounts were established in accordance with the Community Development Entity ("CDE") loan agreements to fund the payment of management and servicing fees. The balances in each cash reserve account at October 31 were as follows:

	<u>2019</u>	<u>2018</u>
Leverage loan	\$ 220	\$ 19,076
CDE asset management reserve	<u>119,701</u>	<u>168,812</u>
	<u>\$ 119,921</u>	<u>\$ 187,888</u>

Note 4. Patient Services Receivable, Net

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

	<u>2019</u>	<u>2018</u>
Medicaid	\$ 1,193,683	\$ 1,536,642
Medicare	13,359	29,147
Pharmacy	<u>318,361</u>	<u>274,063</u>
	1,525,403	1,839,852
Less contractual allowance and allowance for doubtful accounts	<u>472,094</u>	<u>535,868</u>
	<u>\$ 1,053,309</u>	<u>\$ 1,303,984</u>

Note 5. Contributions Receivable

Contributions receivable consist of the following at October 31:

	<u>2019</u>	<u>2018</u>
Center for Health Affairs	\$ -	\$ 400,000
United Way Services	-	126,098
Board of Trustees/executive staff	<u>-</u>	<u>3,000</u>
	<u>\$ -</u>	<u>\$ 529,098</u>

CARE ALLIANCE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 6. Investment Return

Investment return is summarized as follows:

	<u>2019</u>	<u>2018</u>
Interest and dividends	\$ 115,246	\$ 124,091
Investment fees	(19,215)	(24,678)
Net unrealized and realized holding gains	<u>258,272</u>	<u>(57,164)</u>
Investment return	<u>\$ 354,303</u>	<u>\$ 42,249</u>

Note 7. Note Receivable

To facilitate the Federal New Market Tax Credit structure, on April 11, 2014, the Agency loaned a total of \$6,724,000 in the form of a note to an unrelated entity. The note bears interest at the rate of 1.0% per annum and is payable quarterly. The note matures April 11, 2041 with interest only payments to be paid quarterly until June 10, 2021 at which time principal and interest payments will be due at the amount of \$92,840 per quarter.

Note 8. Property and Equipment, Net

Property and equipment, net consists of the following at October 31:

	<u>2019</u>	<u>2018</u>
Land	\$ 250,000	\$ 250,000
Building	10,756,749	10,756,749
Building improvements	803,947	803,947
Equipment	3,172,943	3,114,970
Vehicles	<u>373,500</u>	<u>373,500</u>
	15,357,139	15,299,166
Less accumulated depreciation	<u>5,179,666</u>	<u>4,453,608</u>
	<u>\$ 10,177,473</u>	<u>\$ 10,845,558</u>

Note 9. Loans Payable

Alliance for a Bright Future, Inc. received two loans totaling \$9,700,000 from an unrelated CDE. The proceeds of the loans were used to finance the Central Neighborhood Clinic construction project. The loans bear interest at the rate of .70% per annum and are payable quarterly. The loans mature April 11, 2049 with interest only payments to be paid quarterly until March 1, 2021 at which time principal and interest payments will be due in the amount of \$95,448 per quarter. The loans are recorded in NMTC loans payable in the consolidated balance sheets. Interest paid for the years ended October 31, 2019 and 2018 totaled \$68,100 and \$67,900, respectively.

CARE ALLIANCE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 10. Forgivable Loan

The Agency has accepted the conditions of a \$180,000 Vacant Property Initiative loan commitment dated September 27, 2013 from the City of Cleveland. This is a forgivable loan, provided that the Agency creates 30 jobs at the Central Neighborhood Clinic. The loan will be fully forgiven in five years, at June 18, 2019, if all conditions are met. The loan term is five years, at a fixed annual interest rate of 2%, with deferred interest and principal payments. As of October 31, 2019 and 2018, there was a \$180,000 balance on the loan. On October 8, 2020, the Agency was notified that the loan was forgiven.

Note 11. DHHS Grants

For the years ended October 31, 2019 and 2018, the Agency received the following grants from the DHHS:

Grant Number	Grant Period	Total Grant	2019 Revenue Recognized	2018 Revenue Recognized
6H76HA00607-18-00	05/01/17 - 04/30/18	226,006	\$ -	\$ 115,782
6H76HA00607-19-00	05/01/18 - 04/30/19	216,197	107,399	108,798
6H76HA00607-19-00	05/01/19 - 04/30/20	216,197	108,099	-
2H80CS00029-15-01	03/01/16 - 02/28/17	325,000	-	54,167
2H80CS00029-16-05	01/01/17 - 12/31/17	3,900,623	-	650,104
6H80CS00029-16-10	08/01/17 - 07/31/18	88,418	-	66,312
3H80CS00029-16-11	09/01/17 - 08/31/18	175,700	-	146,417
5H80CS00029-17-00	01/01/18-12/31/18	3,983,190	663,865	3,319,325
6H80CS00029-17-07	01/01/18-12/31/18	59,841	44,881	14,960
3H80CS00029-17-08	01/01/18-12/31/18	285,000	237,500	47,500
6H80CS00029-18-11	01/01/19 - 12/31/19	35,000	5,833	-
2H80CS00029-18-00	01/01/19 - 12/31/19	4,039,990	3,366,658	-
			<u>\$ 4,534,235</u>	<u>\$ 4,523,365</u>

Note 12. Patient Services Revenue, Net

For the years ended October 31, 2019 and 2018, patient services revenue, net consists of the following:

	Gross Charges	Contractual Allowances/ Sliding Fee Discounts	2019 Net Revenue	2018 Net Revenue
Medicaid	\$ 5,676,415	\$ 1,046,752	\$ 4,629,663	\$ 5,377,216
Medicare	240,343	75,005	165,338	188,765
Other third-party payors	5,828,266	4,437,125	1,391,141	1,238,034
Self-pay	2,389,563	2,216,664	172,899	134,923
	<u>\$ 14,134,587</u>	<u>\$ 7,775,546</u>	<u>\$ 6,359,041</u>	<u>\$ 6,938,938</u>

CARE ALLIANCE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 12. Patient Services Revenue, Net (Continued)

The Agency is a federally qualified healthcare center, which is a type of provider defined by Section 330 of the Public Health Services Act. The Agency provides care to patients utilizing a sliding-fee scale with discounts based on patient family size and income in accordance with federal poverty guidelines. The Agency is open to all, regardless of their ability to pay. The amount not recovered under the sliding-fee scale is not reported as revenue as it is not expected to be paid. The Agency maintains records to identify and monitor the level of sliding fee discounts it provides. The amount of sliding fee discounts provided during the years ended October 31, 2019 and 2018 amounted to \$2,216,665 and \$1,846,767, respectively.

Medicaid and Medicare revenue is reimbursed to the Agency at the net reimbursement rates determined by Medicaid and Medicare. Reimbursement rates are subject to revisions under the provisions of reimbursement regulations. Adjustments for such revisions are recognized in the fiscal year incurred. Laws and regulations governing the Medicaid and Medicare programs are complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

Note 13. Net Assets With Donor Restrictions

Net assets with donor restrictions consist of the following:

	<u>2019</u>	<u>2018</u>
Operations	\$ 138,577	\$ 77,990
Homeless program	10,641	28,041
Homeless program - United Way	<u>-</u>	<u>142,841</u>
	<u>\$ 149,218</u>	<u>\$ 248,872</u>

Releases from restrictions of \$569,165 and \$755,111 were released during the year ended October 31, 2019 and 2018, respectively, for operating and program purposes.

Note 14. Pension Plan

The Agency has a noncontributory defined contribution pension plan covering all full-time employees over age 21 with one or more years of service. Contributions and costs are determined at 7.5% of each eligible employee's salary. For the years ended October 31, 2019 and 2018, such costs amounted to \$284,399 and \$385,028, respectively.

Note 15. Commitments and Contingencies

The Agency 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. The Agency believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation, as well as significant regulatory action including fines, penalties and exclusion from the Medicare and Medicaid programs.

CARE ALLIANCE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 15. Commitments and Contingencies (Continued)

The Agency 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. The Agency believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation, as well as significant regulatory action including fines, penalties and exclusion from the Medicare and Medicaid programs.

The Agency maintains its medical malpractice coverage under the Federal Tort Claims Act ("FTCA"). FTCA provides malpractice coverage to eligible Public Health Service supported programs and applies to the Agency 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.

Note 16. Liquidity and Availability

The Agency derives most of its revenue from Medicare, Medicaid and commercial insurance for the services it provides. In addition, the Agency is supported by investment income, grants and contributions. Grants and some contributions may be donor restricted requiring resources to be used in a particular manner or in a future period. The Agency must maintain sufficient resources to meet those responsibilities to their donors and, thus, certain funds may not be available for general expenditures within one year.

As part of the Agency's liquidity management, financial assets have been structured to be available as general expenditures, liabilities and other obligations come due. In addition, cash in excess of short-term needs is invested in liquid investment instruments.

The following table reflects the Agency's financial assets as of October 31, 2019:

Cash and cash equivalents	\$	1,169,758
Contracts receivable		168,020
DHHS grant receivable		600
Patient services receivable, net		1,053,309
Investments		<u>2,129,334</u>
Financial assets available to meet cash needs for general expenditures within one year	\$	<u><u>4,521,021</u></u>

CARE ALLIANCE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 17. Subsequent Events

On January 30, 2020, the World Health Organization declared the outbreak of the coronavirus disease 2019 (“COVID-19”) a global health emergency and subsequently declared the COVID-19 outbreak a global pandemic in March 2020. The pandemic has adversely affected domestic and global economic activity and the full impact continues to evolve as of the date of this report. It is uncertain what effect the COVID-19 outbreak may have on the Agency’s revenues in 2020 and future periods.

On March 27, 2020, President Trump signed into law the Coronavirus Aid, Relief and Economic Security (“CARES”) Act. The CARES Act, among other things, created the Paycheck Protection Program (“PPP”) to be administered by the U.S. Small Business Administration. In May 2020, the Agency received approximately a \$1.7 million unsecured loan under the PPP. Provisions of the PPP allow for partial or full forgiveness of the loan provided the proceeds are used for covered expenditures and certain other requirements are satisfied. The unforgiven portion of the loan, if any, is payable in eighteen monthly installments (plus interest at a rate of 1% per annum) commencing seven months from the loan disbursement date.

The Agency is reliant upon patient service revenue and run the risk of having further shortfalls due to mandatory shut downs which could limit the number of patients seen over a period of time. Thus, the potential shutdown could have a negative impact overall operations of the Agency. However, the Agency has received CARES Act money outside of the PPP Loan as describe previously to assist with providing necessary care.

CARE ALLIANCE
UNIFORM GUIDANCE AUDIT REQUIREMENTS

CARE ALLIANCE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended October 31, 2019

Federal Grantor/Pass-Through <u>Grantor/Program Title</u>	<u>Grant Number</u>	<u>Federal CFDA Number</u>	<u>Total Federal Expenditures</u>
U.S. Department of Health and Human Services			
New and Expanded Services under the Health Center Program	H80CS00029	93.527	\$ 2,646,329
Health Center Program	H80CS00029	93.224	<u>1,672,408</u>
Health Center Cluster Total			4,318,737
passed through from Recovery Resource			
HIV Prevention Activities Non-Governmental Organization Based	6 NU65PS004827-05-01	93.939	133,020
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	H76HA00607	93.918	<u>215,498</u>
Total expenditures of federal awards			<u>\$ 4,667,255</u>

The accompanying notes are an integral part of this schedule.

CARE ALLIANCE

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended October 31, 2019

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of Care Alliance under programs of the federal government for the year ended October 31, 2019. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the "Uniform Guidance"). Because the Schedule presents only a selected portion of the operations of Care Alliance, it is not intended to and does not present the financial position, changes in net assets or cash flows of Care Alliance.

Note 2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited in reimbursement.

Note 3. Indirect Cost Rate

Care Alliance has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

Independent Auditors' Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Financial
Statements Performed in Accordance With *Government Auditing Standards*

To the Board of Directors
Care Alliance
Cleveland, Ohio

We have audited, 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, the consolidated financial statements of Care Alliance (a nonprofit organization), which comprise the consolidated balance sheet as of October 31, 2019, and the related consolidated statements of operations 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 December 30, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Care Alliance'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 Care Alliance's internal control. Accordingly, we do not express an opinion on the effectiveness of Care Alliance's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the 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. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be material weakness as item 2019-001.

Independent Auditors' Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Financial
Statements Performed in Accordance With *Government Auditing Standards* (Continued)

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Care Alliance's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Care Alliance's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Meloney + Novotny LLC

Cleveland, Ohio
December 30, 2020

Independent Auditors' Report on Compliance for Each Major Program
and on Internal Control Over Compliance Required by the Uniform Guidance

To the Board of Directors
Care Alliance
Cleveland, Ohio

Report on Compliance for Each Major Federal Program

We have audited Care Alliance's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Compliance Supplement that could have a direct and material effect on each of Care Alliance's major federal programs for the year ended October 31, 2019. Care Alliance's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of each of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Care Alliance's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Care Alliance's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination on Care Alliance's compliance.

Opinion on Each Major Federal Program

In our opinion, Care Alliance complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended October 31, 2019.

Independent Auditors' Report on Compliance for Each Major Program
and on Internal Control Over Compliance Required by the Uniform Guidance (Continued)

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as item 2019-002. Our opinion of the major federal programs is not modified with respect to this matter.

Care Alliance's responses to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Care Alliance's response was not subjected to audit of compliance and, accordingly, we express no opinion of the responses.

Report on Internal Control Over Compliance

Management of Care Alliance 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 Care Alliance's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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 Care Alliance's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Cleveland, Ohio
December 30, 2020

CARE ALLIANCE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended October 31, 2019

Section I - Summary of Auditors' Results

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP:

Unmodified

Internal control over financial reporting:

Material weakness(es) identified?

 X yes

Significant deficiency(ies) identified?

 yes X none reported

Noncompliance material to financial statements noted?

 yes X no

Federal Awards

Internal control over major federal programs:

Material weakness(es) identified?

 yes X no

Significant deficiency(ies) identified?

 yes X none reported

Type of auditors' report issued on compliance for major federal programs:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR section 200.516(a)?

 X yes no

Identification of major federal programs:

CFDA Numbers

Name of Federal Program or Cluster

93.224. 93.527

Health Center Program Cluster

Dollar threshold used to distinguish between Type A and Type B programs:

\$ 750,000

Auditee qualified as a low risk auditee?

 X yes no

CARE ALLIANCE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

Year Ended October 31, 2019

Section II - Financial Statement Findings

A. Material Weakness in Internal Control Over Financial Reporting

2019 – 001 Medicaid and Medicare Receivable

Criteria: In accordance with *Government Auditing Standards*, an effective internal control system should provide reasonable assurance that the Agency will design, implement and operate its financial controls to ensure they are effectively designed, implemented and operating.

Condition: Medicaid and Medicare receivables were recorded on an accrual basis, and were relieved through cash receipts in a summary basis, but individual transactions were not tracked to ensure the receivable was properly relieved and evaluated for collectability.

Cause: There were no procedures to monitor individual patient receivables on an ongoing basis as activity increased.

Effect: Because of the failure to monitor receivables, the Medicaid and Medicare receivables were overstated by a material amount.

Recommendation: We recommend that policies and procedures should be implemented by management to review accounts receivable specific for Medicaid and Medicare timely for collectability and should record an allowance or write off uncollectable amounts as necessary.

Views of Responsible Officials: Management has taken steps to review and understand the revenue transaction cycle and how receivables are recorded and relieved.

Section III - Federal Award Findings and Questioned Costs

Health and Human Services

2019 – 002 Program: New and Expanded Services under the Health Center Program – 93.527

Condition: The Agency did not have a control to ensure that the Data Collection Form would be timely filed.

Criteria: The Data Collection Form is due 9 months after year end along with a 3 month extension in accordance with the authority of 2 CFR Section 200.102(a), exceptions, specifically M 20-26.

Cause: Procedures were not in place to cause the Data Collection Form to be filed timely.

Effect: The Data Collection Form was not timely filed.

CARE ALLIANCE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

Year Ended October 31, 2019

Section III - Federal Award Findings and Questioned Costs

Health and Human Services

2019 – 002 Program: New and Expanded Services under the Health Center Program – 93.527

Recommendation: The Agency should ensure the due date of the Data Collection Form is filed timely.

Views of Responsible Official and Planned Corrective Actions: The Agency agrees with the finding and will set up the due date in our electronic calendar as soon as the audit report is received.



Care Alliance

Health Center

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Doris Williams, RN
VP of Nursing

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Chief Dental Officer

Marilyn Matlock-Dalley
VP of Human Resources

December 30, 2020

Corrective Active Plan

Year Ended October 31, 2019

Identifying Number 2019-001

Finding: The Organization's accounts receivable over Medicaid and Medicare were not being tracked on an individual claim basis thus resulting in accounts receivable being overstated.

Action Taken: We fully concur with the findings of the audit and have taken necessary steps to fully implement the recommendation.

Identifying Number 2019-002

Finding: The Organization did not timely file the Data Collection Form.

Action Taken: We fully concur with the findings of the audit and have taken necessary steps to fully implement the recommendation.

Prior to the presentation of the draft audit, we made the necessary journal entries and created the required policies to properly review and monitor accounts receivable. After the report will be issues management will file the Data Collection Form.

If there are questions regarding these plans, Please call Dr. Claude L. Jones, CEO, or Anthony Felici, VP of Finance (216) 781-6228.

Sincerely,

Dr. Claude L. Jones, DO, MPH, MSc
President and CEO

Care for you. Care for me. Care for all.

Our mission is to provide high-quality, comprehensive medical and dental care, patient advocacy and related services to people who need them most, regardless of their ability to pay.

info@carealliance.org • www.carealliance.org

