

**MARY'S CENTER FOR MATERNAL AND
CHILD CARE, INC.**

**MC2 COMMUNITY DEVELOPMENT
CORPORATION**

AUDIT REPORT

**FINANCIAL AND FEDERAL AWARD
COMPLIANCE EXAMINATION**

FOR THE YEAR ENDED DECEMBER 31, 2015

**MARY'S CENTER FOR MATERNAL AND CHILD CARE, INC.
MC2 COMMUNITY DEVELOPMENT CORPORATION**

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COMBINED FINANCIAL STATEMENTS

**MARY'S CENTER FOR MATERNAL AND
CHILD CARE, INC.**

**MC2 COMMUNITY DEVELOPMENT
CORPORATION**

**FOR THE YEAR ENDED DECEMBER 31, 2015
WITH SUMMARIZED FINANCIAL
INFORMATION FOR 2014**

**MARY'S CENTER FOR MATERNAL AND CHILD CARE, INC.
MC2 COMMUNITY DEVELOPMENT CORPORATION**

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GELMAN, ROSENBERG

& FREEDMAN

CERTIFIED PUBLIC ACCOUNTANTS



INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Mary's Center for Maternal and Child Care, Inc.
MC2 Community Development Corporation
Washington, D.C.

Report on the Financial Statements

We have audited the accompanying combined financial statements of Mary's Center for Maternal and Child Care, Inc. and MC2 Community Development Corporation (the Organizations), which comprise the combined statement of financial position as of December 31, 2015, and the related combined statements of activities and change in net assets, functional expenses and cash flows for the year then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Financial Statements

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined 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 combined 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 combined 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 combined financial statements referred to above present fairly, in all material respects, the combined financial position of the Organizations as of December 31, 2015, and the combined change in their net assets and their combined cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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MEMBER OF THE AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS' PRIVATE COMPANIES PRACTICE SECTION

Report on Summarized Comparative Information

We have previously audited the Organizations' 2014 combined financial statements, and we expressed an unmodified audit opinion on those audited combined financial statements in our report dated May 18, 2015, except for Note 17, as to which the date is July 20, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2014, is consistent, in all material respects, with the audited combined financial statements from which it has been derived.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the combined financial statements as a whole. The Combining Schedule of Financial Position on pages I-(25 - 26), Combining Schedule of Activities on page I-27 and Combining Schedule of Change in Net Assets on page I-28 are presented for purposes of additional analysis and are not a required part of the combined financial statements. The Schedule of Expenditures of Federal Awards on pages I-(29 - 32), 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 (Uniform Guidance), is presented for purposes of additional analysis and is not a required part of the combined 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 combined financial statements. The information has been subjected to the auditing procedures applied in the audit of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined 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 combined 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 May 16, 2016 on our consideration of the Organizations' internal control over financial reporting and on our tests of their compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organizations' internal control over financial reporting and compliance.



May 16, 2016

**MARY'S CENTER FOR MATERNAL AND CHILD CARE, INC.
MC2 COMMUNITY DEVELOPMENT CORPORATION**

**COMBINED STATEMENT OF FINANCIAL POSITION
AS OF DECEMBER 31, 2015
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2014**

ASSETS

	2015	2014
CURRENT ASSETS		
Cash and cash equivalents	\$ 2,767,033	\$ 1,180,343
Investments (Notes 2 and 14)	802,117	727,236
Accounts receivable, net of allowance for doubtful accounts of \$1,227,394 and \$1,848,920 in 2015 and 2014, respectively (Note 9)	3,001,820	2,665,069
Grants receivable, net of allowance for doubtful accounts of \$49,262 and \$22,282 in 2015 and 2014, respectively	8,386,726	6,795,125
Pledges receivable	65,200	167,600
Interest receivable	62,796	62,796
Inventory	372,419	452,224
Prepaid expenses	<u>424,035</u>	<u>216,957</u>
Total current assets	<u>15,882,146</u>	<u>12,267,350</u>
FIXED ASSETS (Notes 3, 10 and 11)		
Land	993,216	993,216
Buildings	19,660,348	19,636,516
Equipment	3,000,876	2,826,393
Furniture	881,356	881,356
Computer equipment	610,101	538,276
Vehicles	<u>469,690</u>	<u>469,690</u>
	25,615,587	25,345,447
Less: Accumulated depreciation	<u>(7,854,374)</u>	<u>(6,703,664)</u>
Net fixed assets	<u>17,761,213</u>	<u>18,641,783</u>
OTHER ASSETS		
Security deposits	49,870	36,766
Loan costs, net of accumulated amortization of \$734,800 and \$579,737 in 2015 and 2014, respectively (Note 3)	336,878	491,942
Pledges receivable, net of current portion	76,900	105,000
Note receivable (Note 11)	<u>15,071,000</u>	<u>15,071,000</u>
Total other assets	<u>15,534,648</u>	<u>15,704,708</u>
TOTAL ASSETS	<u>\$ 49,178,007</u>	<u>\$ 46,613,841</u>

LIABILITIES AND NET ASSETS

	<u>2015</u>	<u>2014</u>
CURRENT LIABILITIES		
Line of credit (Note 9)	\$ -	\$ 183,835
Current portion of long-term debt (Note 3)	307,467	278,493
Accounts payable and accrued liabilities	3,135,282	2,986,899
Refundable advances	12,633	-
Deferred revenue	<u>3,658</u>	<u>3,658</u>
Total current liabilities	<u>3,459,040</u>	<u>3,452,885</u>
LONG-TERM LIABILITIES		
Long-term debt, net of current portion (Note 3)	22,871,484	23,089,186
Tenant security deposits	<u>230,175</u>	<u>230,175</u>
Total long-term liabilities	<u>23,101,659</u>	<u>23,319,361</u>
Total liabilities	<u>26,560,699</u>	<u>26,772,246</u>
NET ASSETS		
Unrestricted:		
Undesignated	7,384,896	4,133,013
Board designated	<u>85,000</u>	<u>85,000</u>
Total unrestricted	7,469,896	4,218,013
Temporarily restricted (Note 6)	14,952,412	15,458,582
Permanently restricted (Note 7)	<u>195,000</u>	<u>165,000</u>
Total net assets	<u>22,617,308</u>	<u>19,841,595</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 49,178,007</u>	<u>\$ 46,613,841</u>

**MARY'S CENTER FOR MATERNAL AND CHILD CARE, INC.
MC2 COMMUNITY DEVELOPMENT CORPORATION**

**COMBINED STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2015
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2014**

	<u>2015</u>			<u>2014</u>	
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>	<u>Total</u>
REVENUE					
Patient services	\$ 22,213,525	\$ -	\$ -	\$ 22,213,525	\$ 17,842,308
Contributions (Notes 5 and 7)	3,214,324	-	30,000	3,244,324	3,041,547
Grants and contracts (Note 12)	5,343,397	9,062,551	-	14,405,948	13,824,709
Other income (Note 15)	3,863,557	-	-	3,863,557	3,641,495
Rental income (Note 4)	439,329	-	-	439,329	440,609
Investment income (Note 2)	153,431	5,458	-	158,889	203,755
Net assets released from donor restrictions (Note 6)	<u>9,574,179</u>	<u>(9,574,179)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total revenue	<u>44,801,742</u>	<u>(506,170)</u>	<u>30,000</u>	<u>44,325,572</u>	<u>38,994,423</u>
EXPENSES					
Program Services:					
Patient Services	15,163,890	-	-	15,163,890	14,571,902
Medical Services	10,575,397	-	-	10,575,397	9,224,410
Social and Educational Services	<u>9,000,166</u>	<u>-</u>	<u>-</u>	<u>9,000,166</u>	<u>7,024,678</u>
Total program services	<u>34,739,453</u>	<u>-</u>	<u>-</u>	<u>34,739,453</u>	<u>30,820,990</u>
Supporting Services:					
Leased Employees (Note 15)	3,468,961	-	-	3,468,961	3,169,459
Fundraising	962,116	-	-	962,116	816,485
General and Administrative	<u>2,379,329</u>	<u>-</u>	<u>-</u>	<u>2,379,329</u>	<u>2,245,762</u>
Total supporting services	<u>6,810,406</u>	<u>-</u>	<u>-</u>	<u>6,810,406</u>	<u>6,231,706</u>
Total expenses	<u>41,549,859</u>	<u>-</u>	<u>-</u>	<u>41,549,859</u>	<u>37,052,696</u>
Change in net assets	3,251,883	(506,170)	30,000	2,775,713	1,941,727
Net assets at beginning of year	<u>4,218,013</u>	<u>15,458,582</u>	<u>165,000</u>	<u>19,841,595</u>	<u>17,899,868</u>
NET ASSETS AT END OF YEAR	<u>\$ 7,469,896</u>	<u>\$ 14,952,412</u>	<u>\$ 195,000</u>	<u>\$ 22,617,308</u>	<u>\$ 19,841,595</u>

**MARY'S CENTER FOR MATERNAL AND CHILD CARE, INC.
MC2 COMMUNITY DEVELOPMENT CORPORATION**

**COMBINED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2015
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2014**

	2015			
	Program Services			
	Patient Services	Medical Services	Social and Educational Services	Total Program Services
Salaries and personnel related expenses (Note 13)	\$ 8,561,268	\$ 6,189,653	\$ 6,373,932	\$21,124,853
Consultants and outside services (Note 5)	701,854	2,006,360	870,606	3,578,820
Occupancy costs (Notes 3 and 8)	341	108,556	56,165	165,062
Depreciation and amortization	-	-	-	-
Medical and dental supplies/ donated vaccines (Note 5)	2,617,173	214,599	753	2,832,525
Insurance and registration	1,829	22,398	15,752	39,979
Equipment and maintenance	53,553	134,720	50,830	239,103
Office expenses (Note 5)	145,657	187,117	295,775	628,549
Meetings and travel	29,283	29,471	122,590	181,344
Interest expense (Note 3)	-	-	-	-
Bad debt	-	-	-	-
Miscellaneous	609,704	192,608	51,066	853,378
Subtotal	12,720,662	9,085,482	7,837,469	29,643,613
General and administrative allocation	2,443,228	1,489,915	1,162,697	5,095,840
TOTAL	\$15,163,890	\$ 10,575,397	\$ 9,000,166	\$34,739,453

Supporting Services						2014
Leased Employees	Fundraising	General and Administrative	Total Supporting Services	Total Expenses	Total Expenses	
\$ 3,368,961	\$ 353,274	\$ 2,959,465	\$ 6,681,700	\$ 27,806,553	\$ 25,360,083	
-	166,778	705,446	872,224	4,451,044	2,827,116	
-	375	1,333,824	1,334,199	1,499,261	1,405,387	
-	-	1,313,409	1,313,409	1,313,409	1,352,285	
-	-	-	-	2,832,525	2,454,458	
-	200	98,228	98,428	138,407	147,287	
-	177	253,058	253,235	492,338	437,423	
-	52,915	776,413	829,328	1,457,877	1,170,758	
-	151,910	53,602	205,512	386,856	322,700	
-	-	7,379	7,379	7,379	100,555	
-	-	30,144	30,144	30,144	506,521	
-	95,897	184,791	280,688	1,134,066	968,123	
3,368,961	821,526	7,715,759	11,906,246	41,549,859	37,052,696	
100,000	140,590	(5,336,430)	(5,095,840)	-	-	
\$ 3,468,961	\$ 962,116	\$ 2,379,329	\$ 6,810,406	\$ 41,549,859	\$ 37,052,696	

**MARY'S CENTER FOR MATERNAL AND CHILD CARE, INC.
MC2 COMMUNITY DEVELOPMENT CORPORATION**

**COMBINED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2015
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2014**

	<u>2015</u>	<u>2014</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 2,775,713	\$ 1,941,727
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	1,313,409	1,352,285
Unrealized loss (gain) on investments	1,236	(27,347)
Realized gain on investments	(70)	(17,598)
Gain on sale of fixed assets	(2,765)	-
Permanently restricted contributions	(30,000)	(20,000)
Change in allowance for bad debt	(594,546)	(238,079)
(Increase) decrease in:		
Accounts receivable	284,775	2,044,994
Grants receivable	(1,618,581)	(629,776)
Pledges receivable	130,500	197,062
Inventory	79,805	(251,215)
Prepaid expenses	(207,078)	(64,343)
Security deposits	(13,104)	-
Increase (decrease) in:		
Accounts payable and accrued liabilities	148,383	(1,108,359)
Refundable advances	12,633	-
Deferred revenue	-	(7,444)
Tenant security deposits	-	(5,800)
Net cash provided by operating activities	<u>2,280,310</u>	<u>3,166,107</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of fixed assets	(280,100)	(103,257)
Sale of fixed assets	5,090	-
Net purchase of investments	<u>(76,047)</u>	<u>(28,100)</u>
Net cash used by investing activities	<u>(351,057)</u>	<u>(131,357)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from line of credit	-	600,000
Payments on line of credit	(183,835)	(2,858,165)
Payments on long-term debt	(278,493)	(265,957)
Permanently restricted contributions	30,000	20,000
Proceeds from long-term debt	<u>89,765</u>	<u>-</u>
Net cash used by financing activities	<u>(342,563)</u>	<u>(2,504,122)</u>
Net increase in cash and cash equivalents	1,586,690	530,628
Cash and cash equivalents at beginning of year	<u>1,180,343</u>	<u>649,715</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ <u>2,767,033</u>	\$ <u>1,180,343</u>

MARY'S CENTER FOR MATERNAL AND CHILD CARE, INC.
MC2 COMMUNITY DEVELOPMENT CORPORATION

COMBINED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2015
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2014

SUPPLEMENTAL INFORMATION	<u>2015</u>	<u>2014</u>
Interest Paid	\$ <u>402,904</u>	\$ <u>508,963</u>
Donated Securities	\$ <u>30,000</u>	\$ <u>20,000</u>

**MARY'S CENTER FOR MATERNAL AND CHILD CARE, INC.
MC2 COMMUNITY DEVELOPMENT CORPORATION**

**NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2015**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION

Organizations -

Mary's Center for Maternal and Child Care, Inc. (the Center) was incorporated in October 1988 in the District of Columbia. The primary purpose of the Center is to provide low-cost, high quality maternity and child care for low income immigrant families of the Washington, D.C. area. The Center is supported principally through government grants and patient revenue.

MC2 Community Development Corporation (MC2) was incorporated on August 19, 2010 in the District of Columbia. The primary purpose of MC2 is to support the Center's charitable purpose and to act as a special purpose real estate subsidiary of the Center. MC2's mission is to acquire, own, develop, redevelop, improve and finance the interests in real estate that are or will be used by the Center in its charitable and educational activities within the meaning of Section 501(c)(3) of the Internal Revenue Code.

Capital Clinical Integrated Network (CCIN) was incorporated on November 27, 2012 in the District of Columbia within the meaning of Section 501(c)(3) of the Internal Revenue Services. CCIN was organized to facilitate the creation of an innovative patient care model that improves health care delivery and patient health outcomes. CCIN has received its 501(c)(3) status from the IRS, and there were no financial transactions.

Basis of presentation -

The accompanying combined financial statements are presented on the accrual basis of accounting, and in accordance with FASB ASC 958-810, *Not-for-Profit Entities, Consolidation*. The statements reflect the activity of Mary's Center for Maternal and Child Care, Inc. and MC2 Community Development Corporation because of their common management. All intercompany transactions have been eliminated during combination.

The combined financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Center's combined financial statements for the year ended December 31, 2014, from which the summarized information was derived.

Cash and cash equivalents -

The Organizations consider all cash and other highly liquid investments with initial maturities of three months or less to be cash and cash equivalents excluding cash and money market funds held by investment managers in the amount of \$222,222 at December 31, 2015.

At times during the year, the Organizations maintain cash balances in interest bearing accounts at financial institutions in excess of the Federal Deposit Insurance Corporation (FDIC) limits. Management believes the risk in these situations to be minimal.

Income taxes -

The Organizations are exempt from Federal income tax under Section 501(c)(3) of the Internal Revenue Code. MC2 is organized as a supporting organization to the Center. The Organizations are subject to unrelated business income tax on rental income from tenant leases. A liability has not been accrued in the current year, as this amount is deemed not to have a material effect on the combined financial statements. Neither organization is a private foundation.

**MARY'S CENTER FOR MATERNAL AND CHILD CARE, INC.
MC2 COMMUNITY DEVELOPMENT CORPORATION**

**NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2015**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION
(Continued)**

Uncertain tax positions -

For the year ended December 31, 2015, the Organizations have documented their consideration of FASB ASC 740-10, *Income Taxes*, that provides guidance for reporting uncertainty in income taxes and have determined that no material uncertain tax positions qualify for either recognition or disclosure in the financial statements.

Fixed assets -

Furniture and equipment are stated at cost and are being depreciated and amortized on the straight-line basis over their estimated useful lives, generally between three and five years. The building and land are stated at cost and the building and improvements are being depreciated over 40 years. Furniture, equipment and improvements with a useful life of more than one year, and costing \$2,500 or more, are capitalized. Repairs and maintenance are recorded to expenses. Depreciation expense for the year ended December 31, 2015 was \$1,158,345.

Impairment of long-lived assets -

Management reviews asset carrying amounts whenever events or circumstances indicate that such carrying amounts may not be recoverable. When considered impaired, the carrying amount of the assets is reduced to its current fair value by a charge to depreciation expense. There were no impairments for the year ended December 31, 2015.

Investments -

Investments are recorded at their readily determinable fair value. Realized and unrealized gains and losses are included in investment income in the Combined Statement of Activities and Change in Net Assets.

Inventory -

Inventory consists of donated vaccines, which are recorded at the lower of cost, at the time of the donation, or market value, using the first-in, first-out method.

Net asset classification -

The net assets are reported in three self-balancing groups as follows:

- **Unrestricted net assets** include unrestricted revenue and contributions received without donor-imposed restrictions. These net assets are available for the operation of the Organizations and include both internally designated and undesignated resources.
- **Temporarily restricted net assets** include revenue and contributions subject to donor-imposed stipulations that will be met by the actions of the Organizations and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Combined Statement of Activities and Change in Net Assets as net assets released from restrictions.
- **Permanently restricted net assets** represent funds restricted by the donor to be maintained in-perpetuity by the Organizations. Investment income is to be used for operating activities of the Organizations.

**MARY'S CENTER FOR MATERNAL AND CHILD CARE, INC.
MC2 COMMUNITY DEVELOPMENT CORPORATION**

**NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2015**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION
(Continued)**

Receivables -

Accounts receivable are amounts due from clients and third-party payers and approximate fair value. Management has established an allowance for doubtful accounts in connection with these receivables based on historical analysis and aging of the receivable balance. Accounts are written off after they are deemed to be uncollectible.

Grants receivable are amounts due from federal agencies, the District of Columbia and private foundations and are recorded at their net realizable value, which approximates fair value. For the year ended December 31, 2015, 96% of the ending receivable balance represents grants due from state and federal agencies, and 4% of the ending balance is due from foundations. The allowance for doubtful accounts is determined based upon an annual review of account balances, including the age of the balance and the historical experience with the customer.

Pledges receivable represent unconditional promises to give by donors. Current pledges receivable are expected to be collected during the next fiscal year and are recorded at their net realizable value. Long-term pledges receivable expected to be collected subsequent to fiscal year 2015 have been discounted at a rate of 3.25% and are reflected in the combined financial statements at their net present value. For the year ended December 31, 2015, pledges receivable due in less than one year were in the amount of \$65,200 and pledges receivable within two to five years were in the amount of \$76,900.

Revenue -

Contributions and grants are recorded as revenue in the year notification is received from the donor. Temporarily restricted contributions and grants are recognized as unrestricted support only to the extent of actual expenses incurred in compliance with the donor-imposed restrictions and satisfaction of time restrictions. Such contributions and grants received in excess of expenses incurred are shown as temporarily restricted net assets in the accompanying combined financial statements.

The Organizations receive funding under grants and contracts from the U.S. Government and other grantors for direct and indirect program costs. This funding is subject to contractual restrictions, which must be met through incurring qualifying expenses for particular programs. Accordingly, such grants are considered exchange transactions and are recorded as unrestricted income to the extent that related expenses are incurred in compliance with the criteria stipulated in the grant agreements.

Cost reimbursable contracts are recorded as revenue as expenses are incurred. Income received in advance is recorded as deferred revenue in the Combined Statement of Financial Position.

Patient service revenue is recorded the month in which the services are rendered. The Organizations provided care to clients meeting certain criteria under their charity care policy without charge or at amounts less than their established rates. Such payments are identified based on financial information obtained from the client and subsequent analysis. Since the Organizations do not pursue collection of amounts determined to qualify as charity care, they are not reported as a component of revenue or accounts receivable. The Organizations maintain records to identify and monitor the level of charity care they provide. For the year ended December 31, 2015, care provided under the charity care policy, valued on a sliding fee basis, totaled \$3,809,322.

**MARY'S CENTER FOR MATERNAL AND CHILD CARE, INC.
MC2 COMMUNITY DEVELOPMENT CORPORATION**

**NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2015**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION
(Continued)**

Revenue (continued) -

Conditional pledges to give are recognized by the Organizations when the conditions on which they depend are substantially met. In 2008, the Organizations received a conditional promise to give of \$50,000 from one donor. The promise is conditional on receipt of matching contributions of \$50,000. As of December 31, 2015, the Organizations had received \$40,000 of the pledge and \$40,000 of the match.

Use of estimates -

The preparation of the combined 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 combined financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Functional allocation of expenses -

The costs of providing the various programs and other activities have been summarized on a functional basis in the Combined Statement of Activities and Change in Net Assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Investment risks -

The Organizations invest in various investment securities. Investment securities are exposed to various risks such as interest rates, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the accompanying combined financial statements.

Fair value measurement -

The Organizations adopted the provisions of FASB ASC 820, *Fair Value Measurement*. FASB ASC 820 defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs (assumptions that market participants would use in pricing assets and liabilities, including assumptions about risk) used to measure fair value, and enhances disclosure requirements for fair value measurements. The Organizations account for a significant portion of their financial instruments at fair value or consider fair value in their measurement.

2. INVESTMENTS

At December 31, 2015, the Organizations had investments, at fair value, as follows:

Money market	\$ 222,222
Government and corporate bonds	82,829
Certificates of deposit	448,400
Government securities	44,840
Mutual funds	2,490
Equities	<u>1,336</u>
TOTAL INVESTMENTS	<u>\$ 802,117</u>

**MARY'S CENTER FOR MATERNAL AND CHILD CARE, INC.
MC2 COMMUNITY DEVELOPMENT CORPORATION**

**NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2015**

2. INVESTMENTS (Continued)

For the year ended December 31, 2015, investment income included the following:

Interest and dividends	\$ 160,055
Unrealized loss on investments	(1,236)
Realized gain on investments	<u>70</u>
TOTAL INVESTMENT INCOME	<u>\$ 158,889</u>

3. LONG-TERM DEBT

On January 9, 2008, the Center refinanced its note of \$3,120,000 with a bank note for the amount of \$3,440,497 bearing interest at the lender's five year (5) cost of funds plus one and ninety one hundredths (1.90) percentage (5.79% as of December 31, 2012), which was originally set to mature on April 2, 2013. The loan assumes an amortization schedule of 20 years, with monthly installments of principal and interest of approximately \$24,000. Loan costs have been capitalized and are being amortized over the life of the loan. On April 1, 2013, the Center refinanced the remaining balance of the note in the amount of \$2,910,779. The interest rate on the new loan is 3.97% and matures April 2, 2018. The loan assumes an amortization schedule of 15 years, with monthly installments of principal and interest of approximately \$21,000. The loan is collateralized by the land and building. The loan agreement contains several covenants. The Center was in compliance with all covenants as of December 31, 2015.

\$ 2,502,402

Debt under the New Markets Tax Credit Program: Note A in the amount of \$1,670,575; Note B in the amount of \$6,618,475; Note C in the amount of \$2,490,950; Note D in the amount of \$6,781,950; and Note E in the amount of \$2,038,050. The interest rate on all notes is at 1.141%, with Note A maturing August 1, 2017 and Notes B-E maturing August 1, 2040. Loan costs have been capitalized and are being amortized over the NMTC compliance period. The notes are secured by the QLICI Deed of Trust and the other QLICI Loan Documents and they are subject to all terms and conditions as stated in the agreement. The Center was in compliance with all covenants as of December 31, 2015. See Note 11.

19,600,000

The Center entered into a loan with the Boston Community Loan Fund, Inc. in the amount of \$1,064,125, bearing interest at 7.5%. Principal payments are \$9,627 paid monthly and matures August 15, 2017.

859,823

On July 12, 2012, the Center entered into a loan with City First Bank of D.C., N.A. in the amount of \$352,000, bearing interest at 4.00%. The loan matures on July 17, 2017.

126,961

On November 24, 2015, the Center entered into a loan with Choice Health Finance in the amount of \$89,765, bearing interest at 4.85%. The loan matures on December 20, 2020.

89,765

23,178,951

Less: Current portion

(307,467)

LONG-TERM PORTION

\$ 22,871,484

**MARY'S CENTER FOR MATERNAL AND CHILD CARE, INC.
MC2 COMMUNITY DEVELOPMENT CORPORATION**

**NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2015**

3. LONG-TERM DEBT (Continued)

Aggregate annual principal payments are as follows at December 31, 2015:

Year Ending December 31,

2016	\$ 307,467
2017	2,710,491
2018	2,192,905
2019	18,864
2020	19,799
Thereafter	<u>17,929,425</u>
	<u>\$ 23,178,951</u>

Interest expense on these debt instruments for the year ended December 31, 2015 totaled \$400,246 of which \$392,867 is included in the occupancy costs and \$7,379 is included in interest expense in the Combined Statement of Functional Expenses. As of December 31, 2015, loan costs, net of accumulated amortization in the amount of \$734,800, totaled \$336,878. Amortization expense for the year ended December 31, 2015 was \$155,064.

4. TENANT LEASES

The Organizations sublease a portion of their office space under various leases expiring throughout 2016.

Future minimum rental payments to be received are:

Year Ending December 31, 2016	<u>\$ 335,045</u>
--------------------------------------	--------------------------

Rental income received during the year totaled \$439,329, and is included in the accompanying Combined Statement of Activities and Change in Net Assets.

5. IN-KIND CONTRIBUTIONS

Included in contributions revenue in the accompanying Combined Statement of Activities and Change in Net Assets are contributions of supplies and services. These contributions approximate fair value at the date supplies and services were received.

For the year ended December 31, 2015, the Organizations received in-kind contributions as follows:

Donated vaccines	\$ 1,880,289
Legal services	147,533
Other supplies	<u>68,848</u>
TOTAL IN-KIND CONTRIBUTIONS	<u>\$ 2,096,670</u>

**MARY'S CENTER FOR MATERNAL AND CHILD CARE, INC.
MC2 COMMUNITY DEVELOPMENT CORPORATION**

**NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2015**

6. TEMPORARILY RESTRICTED NET ASSETS

At December 31, 2015, temporarily restricted net assets consisted of the following:

Medical Services	\$ 2,032,332
Social and Educational Services	4,488,569
Georgia Avenue Project	8,011,902
Ontario Road Project	7,396
Time restricted	397,695
Cumulative endowment earnings	<u>14,518</u>
TOTAL TEMPORARILY RESTRICTED NET ASSETS	<u>\$ 14,952,412</u>

The following is a summary of net assets which were released from restrictions by incurring expenses, which satisfied the restricted purposes specified by the donors or passage of time for the year ended December 31, 2015:

Patient Services	\$ 83,440
Medical Services	1,892,314
Social and Educational Services	6,306,034
Georgia Avenue Project	825,101
Ontario Road Project	163,635
Passage of time	<u>303,655</u>
TOTAL NET ASSETS RELEASED FROM DONOR RESTRICTIONS	<u>\$ 9,574,179</u>

7. PERMANENTLY RESTRICTED NET ASSETS

The Organizations' endowment consists of donor-restricted endowment funds. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions. The Board of Directors has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary.

As a result of this interpretation, the Organizations classify as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by UPMIFA.

**MARY'S CENTER FOR MATERNAL AND CHILD CARE, INC.
MC2 COMMUNITY DEVELOPMENT CORPORATION**

**NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2015**

7. PERMANENTLY RESTRICTED NET ASSETS (Continued)

In accordance with UPMIFA, the Organizations consider the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund;
- The purpose of the Organizations and the donor-restricted endowment fund;
- General economic conditions and the possible effect of inflation and deflation;
- The expected total return from income and the appreciation of investments; and
- Investment policies of the organization.

Endowment net asset composition by type of fund as of December 31, 2015:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-Restricted Endowment Funds	\$ <u>-</u>	\$ <u>14,518</u>	\$ <u>195,000</u>	\$ <u>209,518</u>

Changes in endowment net assets for the year ended December 31, 2015:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ -	\$ 9,060	\$ 165,000	\$ 174,060
Investment income	-	5,458	-	5,458
Contributions	-	-	30,000	30,000
ENDOWMENT NET ASSETS, END OF YEAR	\$ <u>-</u>	\$ <u>14,518</u>	\$ <u>195,000</u>	\$ <u>209,518</u>

8. LEASE COMMITMENT

The Organizations entered into a lease agreement for space on Kennedy Street, NW, Washington, D.C., commencing January 1, 2010 and expiring December 31, 2014. The lease was renewed through March, 2018. The Organizations also entered into a lease agreement for space on Flower Avenue commencing June 1, 2007 and expiring May 31, 2018.

Rental expense, including operating costs, for the year ended December 31, 2015 totaled \$557,861 and is included in the Combined Statement of Functional Expenses as part of occupancy costs.

Future minimum payments under the leases are as follows:

Year Ending December 31,

2016	\$ 358,024
2017	368,748
2018	<u>62,520</u>
	\$ <u>789,292</u>

**MARY'S CENTER FOR MATERNAL AND CHILD CARE, INC.
MC2 COMMUNITY DEVELOPMENT CORPORATION**

**NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2015**

9. LINE OF CREDIT

The Organizations have a \$3,000,000 bank line of credit due on demand. The bank can call the loan at any time due to non-compliance with loan covenants. The Center was in compliance with all covenants as of December 31, 2015. Amounts borrowed under this agreement bear interest at the LIBOR rate. LIBOR rate shall mean the greater of 2.5% percentage point(s) above one-day (i.e, overnight) LIBOR, or 4% (the "Interest Rate Floor"). The line of credit is collateralized by a blanket lien on accounts receivable and a \$500,000 Keyman Life Insurance policy on the President/CEO.

At December 31, 2015, the rate was 4%. As of December 31, 2015, the outstanding balance on the line of credit was \$0.

10. GEORGIA AVENUE CONSTRUCTION PROJECT

The Center entered into a purchase and sale agreement with the 3910 Georgia Avenue Associates Limited Partnerships II (the Partnership) on October 14, 2008. The Partnership was the contract purchaser of a portion of land located at 3910-12 Georgia Avenue, NW, Washington, D.C. The Partnership was building a six-story, mixed-use building, with two levels of below-grade parking on the land. The building was organized as a 26,940 square foot retail condominium; 21,050 square feet on the first floor and 5,890 square feet on the below-grade mezzanine level - with 130 rental apartments on floors two through six (the Shell Project Facilities). The Center purchased the Retail Condominium. The fair market value of the Retail Condominium was determined by an independent appraisal at the Partnership's expense. To the extent that the fair market value of the Retail Condominium exceeded the purchase price, the Center and the Partnership agreed that, for federal income tax purposes, the sale of the Retail Condominium to the Center constituted a "bargain sale" within the meaning of Section 1011(b) of the Internal Revenue Code of 1986. The purchase price for the Retail Condominium was determined by the Partnership's final development budget. The total project facilities costs was approximately \$18,000,000. As part of the agreement, the Center and the Partnership agreed to fund the Community Benefit Fund Payment in the amount of \$790,000, which will be paid over a period of 25 years. The Community Benefit Fund Payment is to be allocated equally (50%/50%) between the Center and the Partnership and the first payment of \$15,000 was payable in fiscal year 2012. As of December 31, 2015, the District of Columbia has not established the Community Benefit Fund; therefore, Mary Center was not required to pay installments.

To finance the development and the purchase of the Retail Condominium and to be used as the source of the construction loan, the District of Columbia Primary Care Association (DCPCA) gave the Center a Development Grant and a Shell Loan, effective December 12, 2008, in the amount of \$11,625,000 and \$1,500,000, respectively, in accordance with DCPCA's Medical Homes DC Program. The Shell Loan in the amount of \$1,500,000 had a 0% interest rate and maturity date of December 31, 2010, which was forgiven by DCPCA during fiscal year 2010. The construction project was completed during fiscal year 2011, and the Center helped finance the purchase through the New Markets Tax Credit Program (See Note 11).

11. NEW MARKETS TAX CREDIT

The Center helped finance two real estate projects through the New Markets Tax Credit (NMTC) Program. The first project was the acquisition and build-out of a new clinic facility located in Ward 4 at 3912 Georgia Avenue, NW, Washington, D.C. (the "Georgia Avenue Project") (See Note 10). The second project is the renovation of its existing clinic located in Ward 1 at 2333 Ontario Road, NW, Washington, D.C. (the "Ontario Road Project").

**MARY'S CENTER FOR MATERNAL AND CHILD CARE, INC.
MC2 COMMUNITY DEVELOPMENT CORPORATION**

**NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2015**

11. NEW MARKETS TAX CREDIT (Continued)

This project included the renovation of 6,700 square feet of existing space to improve the efficiency of the facility in order to serve more people in need and provide better patient outcomes. The Center relocated an existing community health care facility in Ward 4 located at 508 Kennedy Street, NW, Washington, D.C. to the Georgia Avenue Project upon completion of the Ontario Road Project renovation during fiscal year ended 2011. The projects collectively are known as the "MC Expansion Projects".

The Center was awarded a grant from the District of Columbia Primary Care Association (DCPCA) to fund a portion of the MC Expansion Projects (See Note 10).

The Center used the DCPCA grant funds and funding from other grants, private financing, other cash funds of the Center (which included the proceeds of a \$1,539,700 loan to the Center) to facilitate a \$19,600,000 New Markets Tax Credit Financing ("NMTC Financing") made to MC2. The New Markets Tax Credit investor ("US Bancorp Community Development Corporation") for the MC Expansion Project provided \$5,538,000 of additional equity in exchange for the allocation of the New Markets Tax Credits generated by the MC Expansion Projects.

On February 8, 2011, MC2 closed on the NMTC Financing and acquired the Georgia Avenue Project from a third-party developer, 3910 Georgia Avenue Associates Limited Partnership II, for \$8,911,034. The remaining balance of the NMTC Financing was used by MC2 to complete the renovation of the Ontario Road Project during fiscal year 2011. Under this arrangement, the Center made a loan in the amount of \$15,071,000 (the Leveraged Loan) to the Mary's Center Investment Fund, LLC (the Fund), a newly formed fund that is wholly owned by the US Bancorp Community Development Corporation (USBCDC). The loan amount was represented by two notes, Note A in the amount of \$1,670,575 and Note B in the amount of \$13,400,425. Interest rate is at 1% and Note A is due within 7 years after closing and Note B is due 40 years after closing. The Fund has no obligation to make any payments to the Center of principal prior to the maturity date. During the seven year NMTC compliance period, the Fund will make annual payments of interest only. After the compliance period, the Fund will make level payments to the Center of principal and interest on Note B in an amount to fully amortize Note B by its scheduled maturity. The loans are secured by a 99.9% limited liability company interest held by the USBCDC in the Sub-CDEs. The Center received interest payments in the amount of \$150,710 during the year ended December 31, 2015.

Proceeds from the Leveraged Loan on February 8, 2011 were used by the Fund to refinance two qualified existing investments (QEIs) in the aggregate amount of \$20,000,000 made by City First Capital 23, LLC and City First Capital 24, LLC (the Sub-CDE Lenders). The Sub-CDE Lenders used the proceeds of the QEI to make two qualified low-income community investments, structured as secured loans to MC2 in the aggregate principal amount of \$19,600,000, and secured by deeds of trust encumbering the MC Expansion Projects (the QLICI Loans). The QLICI Loan was divided into five separate notes detailed in Note 3. Interest rate on all notes is at 1.141%, with Note A matures August 1, 2017 and Notes B-E mature on August 1, 2040.

The Center and MC2 have provided guaranties and/or indemnities in favor of the Lenders and their affiliates relating to the losses that could arise from the failure of the NMTC Financing to satisfy the requirements of the New Markets Tax Credits program, including the failure of MC2 to maintain its status as a "qualified active low income community business".

In connection with the NMTC Financing, the Center requested and M&T agreed to release the Ontario Road Project from the lien of the existing M&T Financing consented to the Center undertaking the NMTC Financing. In addition, the Center requested and DCPCA agreed to modify the terms of the DCPCA Grant to expand the categories of costs eligible for disbursement under the DCPCA grant.

**MARY'S CENTER FOR MATERNAL AND CHILD CARE, INC.
MC2 COMMUNITY DEVELOPMENT CORPORATION**

**NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2015**

11. NEW MARKETS TAX CREDIT (Continued)

After the seven-year NMTC period expires, it is anticipated that (i) either USBCDC will exercise its put option to sell its ownership interest in the Fund to the Center, or the Center will exercise its call option to buy USBCDC's ownership interest in the Fund (ii) the Sub-CDE Lenders will be liquidated and (iii) the Center will acquire the \$20,600,000 NMTC financing in satisfaction of the Leveraged Loan made by the Center to the Fund.

Immediately after the exit transactions are complete, the Center will be the holder of MC2's notes payable under the \$20,600,000 NMTC Financing and, as such, the loan will be eliminated in the combined financial statements.

12. CONTINGENCY

The Organizations receive grants from various agencies of the United States Government. For fiscal years through December 31, 2014, such grants were subject to audit under the provisions of OMB Circular A-133. Beginning for fiscal year ended December 31, 2015, such grants are subject to audit under the provisions of *Title 2 U.S. Code of Federal Regulations (CFR) Part 200 Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. The ultimate determination of amounts received under the United States Government grants is based upon the allowance of costs reported to and accepted by the United States Government as a result of the audits. Audits in accordance with the applicable provisions have been completed for all required fiscal years through 2015. Until such audits have been accepted by the United States Government, there exists a contingency to refund any amount received in excess of allowable costs. Management is of the opinion that no material liability will result from such audits.

13. PENSION PLAN

The Organizations maintain a 403(b) retirement plan for all eligible employees. The Organizations match contributions up to two percent of salaries of all eligible employees. An employee becomes eligible after 90-days and is 100% vested after the second year of employment. The pension expense for the year ended December 31, 2015 was \$170,261 and is included in the Combined Statement of Functional Expenses as part of salaries and personnel related expenses.

14. FAIR VALUE MEASUREMENT

In accordance with FASB ASC 820, *Fair Value Measurement*, the Organizations have categorized their financial instruments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

Investments recorded in the Combined Statement of Financial Position are categorized based on the inputs to valuation techniques as follows:

Level 1. These are investments where values are based on unadjusted quoted prices for identical assets in an active market the Organizations have the ability to access.

Level 2. These are investments where values are based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, or model-based valuation techniques that utilize inputs that are observable either directly or indirectly for substantially the full-term of the investments.

**MARY'S CENTER FOR MATERNAL AND CHILD CARE, INC.
MC2 COMMUNITY DEVELOPMENT CORPORATION**

**NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2015**

14. FAIR VALUE MEASUREMENT (Continued)

Level 3. These are investments where inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Following is a description of the valuation methodology used for investments measured at fair value. There have been no changes in the methodologies used at December 31, 2015.

- *Money market funds* - The fair value is equal to the reported net asset value of the fund.
- *Government and corporate bonds* - Fair value is based upon current yields available on comparable securities of issuers with similar ratings, the security's terms and conditions, and interest rate and credit risk.
- *Certificates of deposit* - Generally valued at original cost plus accrued interest, which approximates fair value.
- *Government securities* - Valued at the closing price reported on the active market in which the individual securities are traded.
- *Mutual funds* - The fair value is equal to the reported net asset value of fund, which is the price at which additional shares can be obtained.
- *Equities* - Valued at the closing price reported on the active market in which the individual securities are traded.

The table below summarizes, by level within the fair value hierarchy, the Organizations' investments as of December 31, 2015:

Asset Class - Investments:	Level 1	Level 2	Level 3	Total
Money market funds	\$ 222,222	\$ -	\$ -	\$ 222,222
Government and corporate bonds	-	82,829	-	82,829
Certificates of deposit	-	448,400	-	448,400
Government securities	44,840	-	-	44,840
Mutual funds	2,490	-	-	2,490
Equities	1,336	-	-	1,336
TOTAL	\$ 270,888	\$ 531,229	\$ -	\$ 802,117

15. CONTRACTUAL AGREEMENT

The Organizations have entered into an agreement with the Briya Public Charter School (BPCS), a not-for-profit public charter school located in the District of Columbia. The Organizations provide assistance with managing the human resources and personnel related administrative functions for BPCS. For the year ended December 31, 2015, the Organizations received \$3,467,275 for services provided, which is included in other income in the Combined Statement of Activities and Change in Net Assets. The contract is renewed annually.

16. SUBSEQUENT EVENTS

On March 22, 2016, Mary's Center entered into a 30-year agreement for the use of 12,000 sf of space at 100 Gallatin Street NE, Washington, DC 20011 with Briya Public Charter School. The agreement commences June 1, 2016 and ends May 31, 2046. The base use fee is \$25/square foot. Monthly Fee is abated until January 1, 2017 and the first six months are discounted by 2.5% to \$24,375 per month. On July 1, 2017 the full rent is due for 12 months at \$25/sf or \$25,000 per month and on the first of July of each subsequent year increases by two and half percent (2.5%) per square foot. Mamie D Lee LLC (MDL LLC), the holder of the ground lease for the site, has provided \$3,762,956 as a build out allowance to Mary's Center for leasehold improvements and furniture and equipment.

**MARY'S CENTER FOR MATERNAL AND CHILD CARE, INC.
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**NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2015**

16. SUBSEQUENT EVENTS (Continued)

The lease agreement is to accommodate an expansion project for a new site for Mary's Center in the Fort Totten neighborhood in Ward 5, Washington DC. The new site is expected to be completed in the fall 2016. The new site will be known as Mary's Center at Fort Totten and will offer care in Medical, Dental, Behavioral Health, Early Intervention for Children with Special Needs, Health Promotion, Nutrition, Social Services and WIC. In addition, Briya will offer Adult Literacy, English classes, computer skills and job skills for adults, and Early Childhood classes for children. While Mary's Center does not have any formal financial ties with Bridges Chartered School, this school for children with special needs will also be housed in the same building. Mary's Center will be collaborating with Bridges Chartered School to extend all of its services to the students and their families.

In preparing these combined financial statements, the Organizations have evaluated events and transactions for potential recognition or disclosure through May 16, 2016, the date the combined financial statements were issued.

SUPPLEMENTAL INFORMATION

**MARY'S CENTER FOR MATERNAL AND CHILD CARE, INC.
MC2 COMMUNITY DEVELOPMENT CORPORATION**

**COMBINING SCHEDULE OF FINANCIAL POSITION
AS OF DECEMBER 31, 2015**

	ASSETS			
	<u>Mary's Center</u>	<u>MC2</u>	<u>Eliminations</u>	<u>Total</u>
CURRENT ASSETS				
Cash and cash equivalents	\$ 2,650,443	\$ 116,590	\$ -	\$ 2,767,033
Investments	802,117	-	-	802,117
Accounts receivable, net of allowance for doubtful accounts of \$1,227,394	3,001,820	262,879	(262,879)	3,001,820
Grants receivable, net of allowance for doubtful accounts of \$49,262	8,386,726	-	-	8,386,726
Pledges receivable	65,200	-	-	65,200
Interest receivable	62,796	-	-	62,796
Inventory	372,419	-	-	372,419
Prepaid expenses	<u>424,035</u>	<u>-</u>	<u>-</u>	<u>424,035</u>
Total current assets	<u>15,765,556</u>	<u>379,469</u>	<u>(262,879)</u>	<u>15,882,146</u>
FIXED ASSETS				
Land	620,000	373,216	-	993,216
Buildings	3,953,886	15,706,462	-	19,660,348
Equipment	1,446,739	1,554,137	-	3,000,876
Furniture	179,191	702,165	-	881,356
Computer equipment	374,030	236,071	-	610,101
Vehicles	<u>469,690</u>	<u>-</u>	<u>-</u>	<u>469,690</u>
	7,043,536	18,572,051	-	25,615,587
Less: Accumulated depreciation	<u>(3,759,738)</u>	<u>(4,094,636)</u>	<u>-</u>	<u>(7,854,374)</u>
Net fixed assets	<u>3,283,798</u>	<u>14,477,415</u>	<u>-</u>	<u>17,761,213</u>
OTHER ASSETS				
Security deposits	49,870	-	-	49,870
Loan costs, net of accumulated amortization of \$734,800	15,488	321,390	-	336,878
Pledges receivable, net of current portion	76,900	-	-	76,900
Note receivable	<u>15,071,000</u>	<u>-</u>	<u>-</u>	<u>15,071,000</u>
Total other assets	<u>15,213,258</u>	<u>321,390</u>	<u>-</u>	<u>15,534,648</u>
TOTAL ASSETS	<u>\$ 34,262,612</u>	<u>\$ 15,178,274</u>	<u>\$ (262,879)</u>	<u>\$ 49,178,007</u>

LIABILITIES AND NET ASSETS

	<u>Mary's Center</u>	<u>MC2</u>	<u>Eliminations</u>	<u>Total</u>
CURRENT LIABILITIES				
Current portion of long-term debt	\$ 307,467	\$ -	\$ -	\$ 307,467
Accounts payable and accrued liabilities	3,304,980	93,181	(262,879)	3,135,282
Refundable advances	12,633	-	-	12,633
Deferred revenue	<u>3,658</u>	<u>-</u>	<u>-</u>	<u>3,658</u>
Total current liabilities	<u>3,628,738</u>	<u>93,181</u>	<u>(262,879)</u>	<u>3,459,040</u>
LONG-TERM LIABILITIES				
Long-term debt, net of current portion	3,271,484	19,600,000	-	22,871,484
Tenant security deposits	<u>230,175</u>	<u>-</u>	<u>-</u>	<u>230,175</u>
Total long-term liabilities	<u>3,501,659</u>	<u>19,600,000</u>	<u>-</u>	<u>23,101,659</u>
Total liabilities	<u>7,130,397</u>	<u>19,693,181</u>	<u>(262,879)</u>	<u>26,560,699</u>
NET ASSETS				
Unrestricted	11,984,803	(4,514,907)	-	7,469,896
Temporarily restricted	14,952,412	-	-	14,952,412
Permanently restricted	<u>195,000</u>	<u>-</u>	<u>-</u>	<u>195,000</u>
Total net assets	<u>27,132,215</u>	<u>(4,514,907)</u>	<u>-</u>	<u>22,617,308</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 34,262,612</u>	<u>\$ 15,178,274</u>	<u>\$ (262,879)</u>	<u>\$ 49,178,007</u>

**MARY'S CENTER FOR MATERNAL AND CHILD CARE, INC.
MC2 COMMUNITY DEVELOPMENT CORPORATION**

**COMBINING SCHEDULE OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2015**

	<u>Mary's Center</u>	<u>MC2</u>	<u>Eliminations</u>	<u>Total</u>
UNRESTRICTED REVENUE				
Patient services	\$ 22,213,525	\$ -	\$ -	\$ 22,213,525
Contributions	3,214,324	-	-	3,214,324
Grants and contracts	5,343,397	-	-	5,343,397
Other income	3,860,791	2,766	-	3,863,557
Rental income	439,329	260,001	(260,001)	439,329
Investment income	153,431	-	-	153,431
Net assets released from donor restrictions	<u>9,574,179</u>	<u>-</u>	<u>-</u>	<u>9,574,179</u>
Total unrestricted revenue	<u>44,798,976</u>	<u>262,767</u>	<u>(260,001)</u>	<u>44,801,742</u>
EXPENSES				
Program Services:				
Patient Services	15,163,890	-	-	15,163,890
Medical Services	10,575,397	-	-	10,575,397
Social and Educational Services	<u>9,000,166</u>	<u>-</u>	<u>-</u>	<u>9,000,166</u>
Total program services	<u>34,739,453</u>	<u>-</u>	<u>-</u>	<u>34,739,453</u>
Supporting Services:				
Leased Employees	3,468,961	-	-	3,468,961
Fundraising	962,116	-	-	962,116
General and Administrative	<u>1,415,446</u>	<u>1,223,884</u>	<u>(260,001)</u>	<u>2,379,329</u>
Total supporting services	<u>5,846,523</u>	<u>1,223,884</u>	<u>(260,001)</u>	<u>6,810,406</u>
Total expenses	<u>40,585,976</u>	<u>1,223,884</u>	<u>(260,001)</u>	<u>41,549,859</u>
CHANGE IN UNRESTRICTED NET ASSETS	<u>\$ 4,213,000</u>	<u>\$ (961,117)</u>	<u>\$ -</u>	<u>\$ 3,251,883</u>
TEMPORARILY RESTRICTED REVENUE				
Grants and contracts	\$ 9,062,551	\$ -	\$ -	\$ 9,062,551
Investment income	5,458	-	-	5,458
Net assets released from donor restrictions	<u>(9,574,179)</u>	<u>-</u>	<u>-</u>	<u>(9,574,179)</u>
CHANGE IN TEMPORARILY RESTRICTED REVENUE	<u>\$ (506,170)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (506,170)</u>
PERMANENTLY RESTRICTED REVENUE				
Contributions	<u>\$ 30,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 30,000</u>

**MARY'S CENTER FOR MATERNAL AND CHILD CARE, INC.
MC2 COMMUNITY DEVELOPMENT CORPORATION**

**COMBINING SCHEDULE OF CHANGE IN NET ASSETS
FOR THE YEAR DECEMBER 31, 2015**

	<u>Mary's Center</u>	<u>MC2</u>	<u>Eliminations</u>	<u>Total</u>
UNRESTRICTED NET ASSETS				
Net assets at beginning of year	\$ 7,771,803	\$(3,553,790)	\$ -	\$ 4,218,013
Change in unrestricted net assets	<u>4,213,000</u>	<u>(961,117)</u>	<u>-</u>	<u>3,251,883</u>
NET ASSETS AT END OF YEAR	<u>\$ 11,984,803</u>	<u>\$(4,514,907)</u>	<u>\$ -</u>	<u>\$ 7,469,896</u>
TEMPORARILY RESTRICTED NET ASSETS				
Net assets at beginning of year	\$ 15,458,582	\$ -	\$ -	\$ 15,458,582
Change in temporarily restricted net assets	<u>(506,170)</u>	<u>-</u>	<u>-</u>	<u>(506,170)</u>
NET ASSETS AT END OF YEAR	<u>\$ 14,952,412</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 14,952,412</u>
PERMANENTLY RESTRICTED NET ASSETS				
Net assets at beginning of year	\$ 165,000	\$ -	\$ -	\$ 165,000
Change in permanently restricted net assets	<u>30,000</u>	<u>-</u>	<u>-</u>	<u>30,000</u>
NET ASSETS AT END OF YEAR	<u>\$ 195,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 195,000</u>

**MARY'S CENTER FOR MATERNAL AND CHILD CARE, INC.
MC2 COMMUNITY DEVELOPMENT CORPORATION**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2015**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Passed-Through to Subrecipients	Total Federal Expenditures
United States Department of Justice				
Crime Victim Assistance - Pass-Through from Maryland Governor's Office of Crime Control & Prevention	16.575	2015-VA-GX-0036		\$ 64,812
Total United States Department of Justice				<u>64,812</u>
Department of Education				
Adult Education - Basic Grants to States - Pass-Through from UDC-US Office of Education/Adult & Family Education	84.002	62002A		92,936
Special Education-Grants for Infants and Families - Pass-Through from DC Office of State Superintendent of Education	84.181	DCGD-2012-H-0003, DCGD-2011-H-0003		<u>618,086</u>
Total Department of Education				<u>711,022</u>
Department of Health and Human Services				
Acquired Immunodeficiency Syndrome (AIDS) Activity - Pass-Through from La Clinica Del Pueblo/HIV/AIDS, Hepatitis, STD and TB Administration	93.118	15Y126, 16Y126		<u>45,845</u>
Family Planning Services - Pass-Through from:				
Department of Health and Human Services -Unity Health Care, Inc.	93.217	FPHPA036006-08-02, FPHPA036197-01-00		231,762
Unity Health Care, Inc.	93.217	5FPHPA006108-02, 5FPHPA006108-03		225,301
Maryland Department of Health Mental Hygiene	93.217	PHPA-G2235		<u>85,905</u>
Total Family Planning Services				<u>542,968</u>
Consolidated Health Centers (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, and Public Housing Primary Care)	93.224			<u>1,568,809</u>
Immunization Cooperative Agreements and Vaccines for Children Program - Pass-Through from Department of Health and Human Services (non cash assistance)	93.268	2280;2280A; P00253; AHR0253; 000024; AHR024		<u>1,960,095</u>
State Partnership Grant Program to Improve Minority Health- Pass-Through from Maryland Department of Mental Health Hygiene	93.296	FHE76EMB		<u>33</u>
Affordable Care Act (ACA) - Family to Family Health Information Centers - Pass-Through from Health Resources and Services Administration	93.504	H84MC21661		<u>18,498</u>

MARY'S CENTER FOR MATERNAL AND CHILD CARE, INC.
MC2 COMMUNITY DEVELOPMENT CORPORATION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2015

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Passed-Through to Subrecipients	Total Federal Expenditures
Department of Health and Human Services (Continued)				
Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program - Pass-Through from:				
DC Department of Health	93.505	4 D89MC25207-01-02		\$ 640,125
Maryland State Department of Mental Health Hygiene	93.505	D89MC25207-01-02		34,087
Total Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program				674,212
State Planning and Establishment Grants for the Affordable Care Act (ACA)'s Exchanges - Pass-Through from DC Health Benefit Exchange Authority	93.525	DCHBX-2013-RFA 01, DCHBX-2016- RQ908734		144,587
Affordable Care Act (ACA) Grants for Capital Development in Health Centers	93.526			246,750
Child Care Mandatory and Matching Funds of the Child Care and Development Fund - Pass-Through from Office of Early Childhood Development/ Early Childhood Education	93.596	ECLTALEPO9152011- R2		180,007
Health Care Innovation Awards (HCIA)	93.610			2,824,493
Pass-Through from GW University and DCPCA	93.610	14-M88, 14,-M94, 15- M49, 15-M64		545,285
Total Health Care Innovation Awards (HCIA)				3,369,778
Strong Start for Mothers and Newborns - Pass-Through from United States Department of Health and Human Services/Centers for Medicare and Medicaid Services	93.611	1D1CMS331151-01-04		110,966
Unaccompanied Alien Children Program - Pass-Through from Department of Health and Human Services/Centers for Medicare and Medicaid Services	93.676	90ZU0081-02		418,174
ARRA - Head Start - Pass-Through from Office of State Superintendent of Education	93.708	ECE-GD-11-0005-R2	\$ 44,827	132,754
Medical Assistance Program - Pass-Through from:				
Prince George's County, Maryland/Affordable Care Act	93.778	521594116		208,183
DC Mayor's Office on Latino Affairs	93.778	521594116		215,910
Total Medical Assistance Program				424,093

MARY'S CENTER FOR MATERNAL AND CHILD CARE, INC.
MC2 COMMUNITY DEVELOPMENT CORPORATION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2015

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Passed-Through to Subrecipients	Total Federal Expenditures
Department of Health and Human Services (Continued)				
Block Grants for Community Mental Health Services - Pass-Through from DC Dept of Behavioral Health	93.958	RQ877112		\$ 14,712
Preventive Health and Health Services Block Grant - Pass-Through from DC Dept of Health	93.991	CHA.PHBG.MCMCH.07 2014		46,126
Maternal and Child Health Services Block Grant to the States - Pass-Through from DC Dept of Health	93.994	CHA.PSMB.MC.052013	\$ 19,117	62,536
Total Department of Health and Human Services				9,960,943
United States Department of Agriculture				
Special Supplemental Nutrition Program for Women, Infants, and Children - Pass-Through from United States Department of Agriculture	10.557	16161DC700W1003		530,790
Total United States Department of Agriculture				530,790
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 63,944	\$ 11,267,567

**MARY'S CENTER FOR MATERNAL AND CHILD CARE, INC.
MC2 COMMUNITY DEVELOPMENT CORPORATION**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2015**

Note 1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of the Organizations under programs of the Federal government for the year ended December 31, 2015. 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* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Organizations, it is not intended to and does not present the financial position, changes in net assets or cash flows of the Organizations.

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, as applicable, either the cost principles in OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, or the cost principles contained in *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. The Organizations have elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

Note 3. Donated Vaccines for Children

Donated vaccines are reported at the amount representing the market valuation as noted by the Center for Disease Control and Prevention. Donated vaccines in the amount of \$1,960,095 were disbursed during the fiscal year 2015 and are included in the accompanying Schedule of Expenditures of Federal Awards under CFDA # 93.268.

**MARY'S CENTER FOR MATERNAL AND CHILD CARE, INC.
MC2 COMMUNITY DEVELOPMENT CORPORATION**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2015**

Section I - Summary of Auditor's Results

Financial Statements

1). Type of auditor's report issued on whether the financial statements audited were prepared in accordance with GAAP basis of accounting:

Unmodified

2). Internal control over financial reporting:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified? Yes None Reported

3). Noncompliance material to financial statements noted?

Yes No

Federal Awards

4). Internal control over major programs:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified? Yes None Reported

5). Type of auditor's report issued on compliance for major programs:

Unmodified

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

Yes No

7). Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program</u>
93.526	Affordable Care Act (ACA) Grants for Capital Development in Health Centers Cluster
93.610	Health Care Innovation Awards (HCIA) Cluster
93.268	Immunizations Cooperative Agreements and Vaccines for Children Program

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

\$750,000

9). Auditee qualified as a low-risk auditee?

Yes No

**MARY'S CENTER FOR MATERNAL AND CHILD CARE, INC.
MC2 COMMUNITY DEVELOPMENT CORPORATION**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2015**

Section II - Financial Statement Findings

There were no reportable findings.

Section III - Federal Award Findings and Questioned Costs (2 CFR 200.516 (a))

There were no reportable findings.



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

Independent Auditor's Report

To the Board of Directors
Mary's Center for Maternal and Child Care, Inc.
MC2 Community Development Corporation
Washington, D.C.

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the combined financial statements of Mary's Center for Maternal and Child Care, Inc. and MC2 Community Development Corporation (the Organizations) as of and for the year ended December 31, 2015, and the related notes to the combined financial statements, which collectively comprise the Organizations' basic combined financial statements, and have issued our report thereon dated May 16, 2016.

Internal Control Over Financial Reporting

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

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

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

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MEMBER OF CPAMERICA INTERNATIONAL, AN AFFILIATE OF HORWATH INTERNATIONAL
MEMBER OF THE AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS' PRIVATE COMPANIES PRACTICE SECTION

Compliance and Other Matters

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

Purpose of this Report

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

A handwritten signature in cursive script that reads "Gelman Rosenberg & Freedman".

May 16, 2016

GELMAN, ROSENBERG

& FREEDMAN

CERTIFIED PUBLIC ACCOUNTANTS



REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY TITLE 2 U.S. CODE OF FEDERAL REGULATIONS (CFR) PART 200, UNIFORM ADMINISTRATIVE REQUIREMENTS, COST PRINCIPLES, AND AUDIT REQUIREMENTS FOR FEDERAL AWARDS (UNIFORM GUIDANCE)

Independent Auditor's Report

To the Board of Directors
Mary's Center for Maternal and Child Care, Inc.
MC2 Community Development Corporation
Washington, D.C.

Report on Compliance for Each Major Federal Program

We have audited Mary's Center for Maternal and Child Care, Inc. and MC2 Community Development Corporation (the Organizations) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Organizations' major federal programs for the year ended December 31, 2015. The Organizations' major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Organizations' 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 the Organizations' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the Organizations 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 December 31, 2015.

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Report on Internal Control Over Compliance

Management of the Organizations is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Organizations' internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with 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 the Organizations' 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.



May 16, 2016