

PARAPROFESSIONAL HEALTHCARE INSTITUTE, INC.

**INDEPENDENT AUDITOR'S REPORT REQUIRED
BY THE OFFICE OF MANAGEMENT AND BUDGET
CIRCULAR A-133 AND
UNITED STATES GENERAL ACCOUNTING OFFICE**

AS OF JUNE 30, 2013

AND FOR THE YEAR THEN ENDED

PARAPROFESSIONAL HEALTHCARE INSTITUTE, INC.

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MEMBERS
AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS
NEW YORK STATE SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT
ON FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

To the Board of Directors
Paraprofessional Healthcare Institute, Inc.
Bronx, New York

Report on the Financial Statements

We have audited the accompanying financial statements of Paraprofessional Healthcare Institute, Inc., which comprise the statement of financial position as of June 30, 2013, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Paraprofessional Healthcare Institute, Inc. as of June 30, 2013, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 10, 2014, on our consideration of Paraprofessional Healthcare Institute, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters.

The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Paraprofessional Healthcare Institute, Inc.'s internal control over financial reporting and compliance.

Winn Lane & Co., P.C.

New York, New York
February 10, 2014

PARAPROFESSIONAL HEALTHCARE INSTITUTE, INC.
STATEMENT OF FINANCIAL POSITION
AS OF JUNE 30, 2013

ASSETS

Current Assets

Cash and cash equivalents	\$ 375,855
Program fees receivable	677,144
Pledges, grants and contributions receivable - Notes 2 and 3	2,627,834
Due from Independence Care System - Note 5	147,114
Other receivable	1,791
Prepaid expenses	186,233
Deferred e-learning program costs	<u>140,435</u>
Total Current Assets	4,156,406

Non-Current Assets

Pledges and grants receivable - Notes 2 and 3	1,651,181
Fixed assets - at cost - net of accumulated depreciation and amortization of \$501,810 - Notes 2 and 4	3,179,775
Security deposits and other assets	441,187
Due from Independence Care System - Note 5	<u>364,000</u>

Total Assets \$ 9,792,549

LIABILITIES AND NET ASSETS

LIABILITIES

Current Liabilities

Accounts and accrued expenses payable	\$ 266,334
Due to Cooperative Home Care Associates, Inc. - Note 5	164,319
Loans payable - Note 6	632,000
Deferred program fees	9,900
Rent deposits payable - Note 9	<u>1,707,998</u>
Total Current Liabilities	2,780,551

Non-Current Liabilities

Loans payable - Note 6	1,430,667
Deferred rent payable - Note 9	<u>386,126</u>
Total Liabilities	<u>4,597,344</u>

Commitments - Note 9

NET ASSETS

Net Assets

Unrestricted	538,608
Temporarily restricted - Note 8	<u>4,656,597</u>
Total Net Assets	<u>5,195,205</u>

Total Liabilities and Net Assets \$ 9,792,549

See accompanying notes to financial statements.

PARAPROFESSIONAL HEALTHCARE INSTITUTE, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2013

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total All Funds</u>
<u>Public Support and Revenue</u>			
Grants and contributions from:			
Foundations and trusts	\$ 195,000	\$ 5,765,480	\$ 5,960,480
Individuals	4,075		4,075
Program fees	1,391,043		1,391,043
Administrative fees - Note 5	1,047,600		1,047,600
Rental income, net of direct rental expenses of \$1,515,902 - Note 9	-		-
Interest income	4,079		4,079
Other income	<u>23,917</u>		<u>23,917</u>
Total Public Support and Revenue	2,665,714	5,765,480	8,431,194
Net Assets released from restrictions - Note 7	<u>4,355,518</u>	(<u>4,355,518</u>)	<u>-</u>
Total Public Support and Revenue	<u>7,021,232</u>	<u>1,409,962</u>	<u>8,431,194</u>
<u>Expenses</u>			
Program Services	<u>5,125,862</u>		<u>5,125,862</u>
Supporting Services			
Administrative and general	1,308,235		1,308,235
Fund raising	<u>575,141</u>		<u>575,141</u>
Total Supporting Services	<u>1,883,376</u>		<u>1,883,376</u>
Total Expenses	<u>7,009,238</u>		<u>7,009,238</u>
Change in Net Assets	11,994	1,409,962	1,421,956
Net Assets as of June 30, 2012	<u>526,614</u>	<u>3,246,635</u>	<u>3,773,249</u>
Net Assets as of June 30, 2013	<u>\$ 538,608</u>	<u>\$ 4,656,597</u>	<u>\$ 5,195,205</u>

See accompanying notes to financial statements.

PARAPROFESSIONAL HEALTHCARE INSTITUTE, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2013

	Program Services	Supporting Services		Total Program and Supporting Services
		Administrative and General	Fund Raising	
Salaries	\$ 2,005,540	\$ 583,003	\$ 436,052	\$ 3,024,595
Fringe benefits	401,642	158,066	53,746	613,454
Total Salaries and related expenses	2,407,182	741,069	489,798	3,638,049
Consultants	209,493	174,166	4,966	388,625
Program grants and expenses - Note 5	1,653,716			1,653,716
Accounting and legal fees		87,771		87,771
Fees, dues and subscriptions	19,122	13,577	990	33,689
Books and supplies	32,239	10,448	3,823	46,510
Occupancy	320,401	94,325	41,011	455,737
Equipment rental and office maintenance	32,035	10,997	4,781	47,813
Telephone and communications	59,509	12,800	6,298	78,607
Postage and mailing	14,281	2,647	495	17,423
Insurance	20,267	12,358	3,024	35,649
Travel and related expenses	193,016	66,694	3,626	263,336
Printing and publications	51,317	3,801	294	55,412
Meetings and conferences	18,940	5,785	2,176	26,901
Advertising and recruitment			789	789
Interest expenses and loan fees		26,373		26,373
Donations and community relations	5,274	8,525		13,799
Miscellaneous	1,793	6,938	44	8,775
Total Expenses before Depreciation and amortization	5,038,585	1,278,274	562,115	6,878,974
Depreciation and amortization	87,277	29,961	13,026	130,264
Total Expenses	\$ 5,125,862	\$ 1,308,235	\$ 575,141	\$ 7,009,238

See accompanying notes to financial statements.

PARAPROFESSIONAL HEALTHCARE INSTITUTE, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2013

Cash Flows from Operating Activities

Change in Net Assets	\$ 1,421,956
Adjustments to reconcile change in Net Assets to net cash provided by operating activities	
Depreciation and amortization	491,840
Changes in assets and liabilities:	
Decrease in escrow - construction	300,000
Decrease in program fees receivable	337,101
Increase in prepaid expenses	(130,491)
Decrease in accounts and accrued expenses payable	(750,843)
Increase in pledges, grants and contributions receivable	(1,059,042)
Increase in other receivable	(1,722)
Decrease in due from Independence Care System	193,813
Decrease in due from The SKILL Center	3,939
Increase in deferred program fees	9,900
Decrease in due to Cooperative Home Care Associates, Inc.	(123,577)
Decrease in rent deposits payable	(515,718)
Increase in deferred rent payable	386,126
Decrease in security deposits and other assets	9,900
Net Cash Provided by Operating Activities	573,182

Cash Flows from Investing Activities

Acquisition of fixed assets	(1,777,611)
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Cash Flows from Financing Activities

Proceeds from loans	1,560,000
Repayments of loans	(1,084,846)

Net Decrease in Cash and Cash Equivalents	(729,275)
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Cash and cash equivalents as of June 30, 2012	1,105,130
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Cash and cash equivalents as of June 30, 2013	\$ 375,855
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Supplemental disclosures of cash flow information

Cash paid during the year for interest	\$ 25,964
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See accompanying notes to financial statements.

PARAPROFESSIONAL HEALTHCARE INSTITUTE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 1 ORGANIZATION

Paraprofessional Healthcare Institute, Inc. ("PHI") is a not-for-profit organization dedicated to improve the lives of people who need home or residential care - by improving the lives of the workers who provide that care. PHI's goal is to ensure the caring, stable relationships between consumers and workers, so that both may live with dignity, respect and independence.

With nearly 44 staff, PHI works to strengthen the nation's long-term care direct-care workforce, which includes nearly 3 million home health aides, certified nurse aides, and personal care attendants. PHI's program activities develop recruitment, training, supervision, and client-centered caregiving practices - along with the public policies necessary to support those practices. PHI's premise is that creating quality jobs for direct-care workers is essential to providing high quality, cost-effective services to long-term care consumers: *Quality Care through Quality jobs.*

PHI is exempt from Federal income taxes on related income under Section 501(c)(3) of the Internal Revenue Code and similar provisions of the State Code.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements have been prepared on the accrual basis of accounting.

Furniture, Equipment and Leasehold Improvements

PHI capitalizes all significant expenditures for furniture and equipment and leasehold improvements. These assets are recorded at cost. Depreciation of furniture and equipment are provided for on a straight line basis over the estimated useful lives of the assets. Leasehold improvements are amortized over their estimated lives or the remaining term of the lease, whichever is shorter.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash held in checking and money market accounts. PHI's cash balances were deposited in two high quality financial institutions.

Public Support and Revenue

Unconditional promises to give are recorded as received. Unconditional promises to give due in the next year are reflected as current promises to give and are recorded at their net realizable value.

(Continue)

PARAPROFESSIONAL HEALTHCARE INSTITUTE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Unconditional promises to give due in subsequent years are reflected as long-term promises to give and are recorded at the present value of their net realizable value, using risk-adjusted interest rates applicable to the years in which the promises are received to discount the amounts.

Grants and other contributions of cash and other assets are reported as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Financial Statement Presentation

The classification of an organization's net assets and its support, revenue and expenses is based on the existence or absence of donor-imposed restrictions. It requires that the amounts for each of the three classes of net assets, permanently restricted, temporarily restricted and unrestricted, be displayed in a statement of financial position and that the amounts of change in each of those classes of net assets be displayed in a statement of activities.

The classes of net assets are defined as follows:

Permanently Restricted - Net assets resulting from contributions and other inflows of assets whose use by PHI is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of PHI.

Temporarily Restricted - Net assets resulting from contributions and other inflows of assets whose use by PHI is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of PHI pursuant to those stipulations. When such stipulations end or are fulfilled, such temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities.

Unrestricted - The part of net assets that is neither permanently nor temporarily restricted by donor-imposed stipulations.

Program Revenue

Program revenue is recognized as income when earned.

(Continue)

PARAPROFESSIONAL HEALTHCARE INSTITUTE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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 and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Comparative Information

These financial statements include certain prior year summarized information presented for comparative purposes and is not intended to be a complete financial statement presentation. Accordingly, such information should be read in conjunction with PHI's financial statements for the year ended June 30, 2012 from which the summarized information was derived.

Accounting for Uncertainty in Income Taxes

PHI adopted *Financial Accounting Standards Board* ("FASB") guidance on uncertain income tax positions in its financial statements. PHI recognizes the effect of tax positions only when they are more likely than not of being sustained. Management is not aware of any violation of its tax status as an organization exempt from income taxes.

NOTE 3 PROMISES TO GIVE

Unconditional promises to give as of June 30, 2013 are as follows:

Receivable in less than one year	\$ 2,627,834
Receivable in one to five years	<u>1,766,666</u>
Total unconditional promises to give	4,394,500
Less net present value discount	<u>115,485</u>
Net unconditional promises to give	<u>\$ 4,279,015</u>

Long-term promises to give are recognized at fair value, using present value techniques and a discount rate of 3.25%.

PARAPROFESSIONAL HEALTHCARE INSTITUTE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 4 FIXED ASSETS

As of June 30, 2013, the costs of the assets and the related accumulated depreciation and amortization were as follows:

Furniture and fixtures	\$ 1,135,974
Equipment and software	553,131
Leasehold improvements	1,949,480
Website	<u>43,000</u>
	3,681,585
Less - Accumulated depreciation and amortization	<u>501,810</u>
Net	<u><u>\$ 3,179,775</u></u>

Fully depreciated fixed assets of \$951,206 has been disposed of during the year.

NOTE 5 RELATED PARTIES TRANSACTIONS

PHI works closely with several paraprofessional staffing and managed care agencies that provide services to people who need home or residential care. In collaboration with following agencies, PHI has designed and implemented an innovative set of recruitment, training and employment practices that have fostered workforce stability and quality care giving. In addition, PHI has supported the worker ownership structure for two of these agencies through worker education and empowerment programs that are designed to help workers become effective participants in organizational decision making and articulate advocates in the public policy arena.

PHI affiliated agencies include:

- Cooperative Home Care Associates (“CHCA”) is based in the Bronx and is the largest worker-owned company in the United States. CHCA employs more than 2,000 mostly Latina and African American home health aides.
- Independence Care System (“ICS”) is a nonprofit managed long-term care plan in New York City designed primarily to coordinate care for adults living with disabilities.
- Home Care Associates of Philadelphia (“HCA”) employs over 150 home health aides and provides paraprofessional job training and placement services to other Philadelphia long-term care providers.

(Continue)

PARAPROFESSIONAL HEALTHCARE INSTITUTE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 5 RELATED PARTIES TRANSACTIONS - (Continued)

PHI has received grants from certain foundations to expand similar training and employment programs for low income individuals; to create models of improved long-term health care services to low-income consumers; and to advocate for improvements in workforce development public policy.

CHCA is also the subrecipient of the New York State Office of Temporary & Disability Assistance Food Stamp Employment & Training Ventures contract and the Structured Employment Economic and Development Corporation Career Pathways Program contract ("OTDA" grants). Total amount of federal grant funds provided to CHCA was \$316,342 for the year.

Total grants made by PHI are as follows:

CHCA - Training and program grants	\$ 1,229,374
CHCA - OTDA grants	<u>316,342</u>
Total grants to CHCA	1,545,716
HCA - Training and program grant	83,000
Partners in Care	<u>25,000</u>
Total grant expenses	<u>\$ 1,653,716</u>

PHI provides technical, administrative and development support to CHCA and ICS. Total administrative fees charged by PHI were \$408,600 to CHCA and \$639,000 to ICS.

HCA, CHCA, PHI and ICS share some common board members, officers and office facilities.

On May 16, 2007, PHI entered into a ten years and two months lease agreement for an office facility located in Brooklyn under an operating lease (see Note 9). On June 19, 2007, PHI obtained a \$1,430,000 loan from a financial institution for the renovation of the Brooklyn facility (see Note 6). On September 14, 2012, PHI obtained a \$560,000 loan from another financial institution to pay off the balance of this loan. This facility is subleased to ICS for the same terms and conditions as provided by the lessor and ICS is responsible for repayment of the renovation loan under the same terms and conditions as provided by the financial institution.

In October 2011, PHI entered into a ten year lease agreement for an office facility located on Fordham Road in the Bronx under an operating lease (see Note 9). The Bronx facility is shared by PHI, CHCA and ICS and is subleased to CHCA and ICS at cost for the same terms and conditions as provided by the lessor.

(Continue)

PARAPROFESSIONAL HEALTHCARE INSTITUTE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 5 RELATED PARTIES TRANSACTIONS - (Continued)

As of June 30, 2013, \$511,114 was due from ICS for the outstanding balance of the loan of \$473,420 and contract services and other reimbursements of \$37,694. Due to CHCA as of June 30, 2013 of \$164,319 represents balance due to CHCA for grants of \$304,712 net of administrative fee and reimbursements due from CHCA of \$140,393.

NOTE 6 LOANS PAYABLE

On January 30, 2013, PHI renewed a line of credit with a bank for \$500,000. PHI's line of credit, to be drawn as needed, bears a variable rate of 4.5 percentage points over the one month Libor Index. On January 21, 2014, PHI renewed the line of credit for \$1,000,000 with the same interest rate. The line of credit is collateralized by the assets of PHI. The primary purpose of this line of credit is to provide PHI with working capital for its programs. The maturity date of the renewed line of credit will be twelve months after the closing date which is expected to occur on or before January 31, 2014. As of June 30, 2013, there was a balance of \$200,000 due on the line of credit.

On June 19, 2007, PHI obtained a \$1,430,000 loan from a financial institution for renovation of an office facility located in Brooklyn. The agreement provides for, among other matters, an annual interest rate of 6.50% payable in equal monthly payments for interest and principal over eighty-four (84) months beginning on January 19, 2008 with balance of principal due on December 19, 2014. On September 14, 2012, PHI obtained a \$560,000 loan from another financial institution to pay off the balance of this loan. The agreement provides for, among other matters, an annual interest rate equal to higher of prime rate plus 2% or 5.25% payable in equal monthly payments for interest and principal over sixty (60) months beginning on October 1, 2012 with balance of principal due on September 30, 2015. The loan is collateralized by the assets of PHI and guaranteed by ICS. As of June 30, 2013, the outstanding balance was \$476,000.

On October 16, 2012, a \$1,600,000 bridge loan from a financial institution to finance the purchase of furniture and equipment at the Fordham Road facility (see Note 9) was converted to a term loan. The agreement provides for, among other matters, an annual interest rate of 5.75% payable in equal monthly payments for interest and principal over thirty-six (36) months beginning on November 16, 2012 with balance of principal due on October 16, 2015. The loan is collateralized by the assets of PHI and guaranteed by CHCA. As of June 30, 2013, the outstanding balance was \$1,386,667.

(Continue)

PARAPROFESSIONAL HEALTHCARE INSTITUTE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 6 LOANS PAYABLE - (Continued)

The balance of these loans as of June 30, 2013 is payable as follows:

<u>Year ending June 30</u>		
2014	\$	632,000
2015		432,000
2016		<u>998,667</u>
Total		2,062,667
Current portion		<u>632,000</u>
Non-current portion		<u>\$ 1,430,667</u>

NOTE 7 NET ASSETS RELEASED FROM RESTRICTIONS

The amounts released from restrictions during the year ended June 30, 2013 are as follows:

Satisfaction of purpose restrictions:		
Program Services	\$	3,516,906
Building communications capacity		64,056
Business planning and financial modeling		100,000
Campaign coordinator		10,000
Capacity building		10,000
Help disconnected youth to secure and retain jobs		25,000
Leadership transition		55,556
Philanthropic equity campaign		125,000
Travel to forums and meetings		<u>11,500</u>
		3,918,018
Satisfaction of time restrictions:		
General support designated for fiscal year ended June 30, 2013		<u>437,500</u>
Total		<u>\$ 4,355,518</u>

PARAPROFESSIONAL HEALTHCARE INSTITUTE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 8 TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets as of June 30, 2013 are available for the following:

Program Services	\$ 1,347,227
Building communications capacity	116,978
Campaign coordinator	10,000
General support designated for fiscal year ending June 30, 2014	200,000
Leadership transition	108,478
Philanthropic equity campaign	2,867,414
Travel to forums and meetings	<u>6,500</u>
Total	<u>\$ 4,656,597</u>

NOTE 9 LEASE COMMITMENTS

- a) During 2007, PHI entered into an operating lease agreement for an office facility located in Brooklyn expiring February 28, 2018. Commencing August 1, 2010, PHI entered into an operating lease agreement for additional storage space at this facility with a lease term through February 28, 2018.

The future minimum rental payments, exclusive of electricity and certain escalation costs, are as follows:

<u>Year ending June 30</u>	<u>Amount</u>
2014	\$ 275,155
2015	476,125
2016	526,563
2017	539,630
2018	<u>366,477</u>
Total	<u>\$ 2,183,950</u>

The lease agreements provide for, among other matters, an option to renew for additional five years. This Brooklyn facility was subleased to ICS for the same terms and conditions as provided by the lessor.

(Continue)

PARAPROFESSIONAL HEALTHCARE INSTITUTE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 9 LEASE COMMITMENTS - (Continued)

- b) In October 2011, PHI entered into a ten year lease agreement for an office facility located on Fordham Road in the Bronx under an operating lease. The lease commenced on July 31, 2012 when substantial construction work was completed.

The future minimum rental payments, exclusive of electricity and certain escalation costs, are as follows:

<u>Year ending June 30</u>	<u>Amount</u>
2014	\$ 1,450,892
2015	1,493,573
2016	1,537,409
2017	1,578,991
2018	1,618,318
Subsequent to 2018	<u>7,322,181</u>
Total	<u>\$ 15,001,364</u>

The office facility is shared by PHI, CHCA and ICS with PHI acting as the primary lessee. Occupancy costs including rent, furnishings and leasehold improvements will be charged to each organization based on the usage of the office facility. The lease obligation of the office facility is guaranteed by PHI, CHCA and ICS. For the year ended June 30, 2013, CHCA and ICS's share of rent, furnishings and leasehold improvements were \$1,103,862 and \$412,040 respectively. The total amount of \$1,515,902 was reflected as rental income/expenses in the statement of activities. Based on the current usage, PHI, CHCA and ICS's share of the lease obligation are approximately 20%, 57% and 23% respectively.

CHCA and ICS have also deposited funds with PHI for the renovation and furnishing of the new office facility. These amounts are to be applied to rental costs of each entity over the term of the lease. As of June 30, 2013, the unapplied amounts for CHCA and ICS were \$701,120 and \$1,006,878 respectively and they are reflected as rent deposits payable in the statement of financial position.

For financial statement purposes, total rent expense will be accounted for on a straight-line basis. Accordingly, the accompanying statement of financial position will reflect a liability for deferred rent for the excess of the rent expense charged under generally accepted accounting principles over the rent paid pursuant to the lease terms. As of June 30, 2013, the amount of deferred rent was \$386,126.

(Continue)

PARAPROFESSIONAL HEALTHCARE INSTITUTE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 9 LEASE COMMITMENTS - (Continued)

- c) In addition to the Brooklyn and Bronx facilities, PHI also maintains other facilities in other States with various operating leases expiring on December 31, 2014. Future minimum rental payments under these leases, excluding certain rent escalations, is \$27,180.

NOTE 10 FAIR VALUE OF FINANCIAL INSTRUMENTS

PHI follows FASB guidance on *Fair Value Measurements and Disclosures*, which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. As defined in FASB *Accounting Standards Codification* ("ASC") 820, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price).

PHI utilizes market data or assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and the risks inherent in the inputs to the valuation technique. PHI's assessment of the significance of a particular input to the fair value measurements requires judgment and may affect the valuation of fair value of assets and liabilities and their placement within the fair value hierarchy levels.

FASB ASC 820 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value, maximizes the use of observable inputs, and minimizes the use of unobservable inputs by requiring that the observable inputs be used when available.

The three levels of fair value hierarchy are as follows:

- Level 1: Unadjusted quoted prices in active markets for identical assets and liabilities.
- Level 2: Observable inputs other than those included in Level 1, such as quoted market prices for similar assets or liabilities in active markets or quoted market prices for identical assets and liabilities in inactive markets.
- Level 3: Unobservable inputs reflecting management's own assumptions about the inputs used in pricing the asset or liability.

(Continue)

PARAPROFESSIONAL HEALTHCARE INSTITUTE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 10 FAIR VALUE OF FINANCIAL INSTRUMENTS - (Continued)

The following methods and assumptions were used by PHI in estimating its fair value disclosures for financial instruments:

- Cash, cash equivalents and short-term unconditional promises to give: The carrying amounts reported in the statement of financial position approximate fair values because of the short maturities of those instruments.
- Long-term unconditional promises to give: The fair value of promises to give that are due in more than one year is estimated by discounting expected future cash flows using a discount rate of 3.25%, the prime rate as of June 30, 2013.
- Due from Independence Care System-loan portion and loans payable: The estimated fair value of loan receivable/payable was calculated using a discounted cash flow method, where the estimated cash flows were based on contractual principal and interest payments. The discount rates used per contractual obligations approximates borrowing rate for similar obligations.

The estimated fair values of PHI's financial instruments are as follows:

	<u>Carrying Amount</u>	<u>Fair Value</u>
Financial Assets:		
Cash and cash equivalents	\$ 375,855	\$ 375,855
Unconditional promises to give	4,279,015	4,279,015
Due from Independence Care System - loan portion	473,420	473,420
Financial Liabilities:		
Loans payable	2,062,667	2,062,667

Fair Value Measurements at Reporting Date Using

	<u>Fair Value</u>	<u>Other Observable Inputs (Level 2)</u>
Due from Independence Care System - loan portion	\$ 473,420	\$ 473,420
Loans payable	2,062,667	2,062,667

PARAPROFESSIONAL HEALTHCARE INSTITUTE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 11 FUNCTIONAL ALLOCATION OF EXPENSES

The costs of providing PHI's services have been summarized on a functional basis in the statement of functional expenses. Accordingly, certain costs have been allocated among program and supporting services benefitted.

NOTE 12 SUBSEQUENT EVENTS

PHI evaluated subsequent events through February 10, 2014, which is the date the financial statements were available to be issued. No subsequent events were identified that required adjustment to or disclosure within the financial statements.

**PARAPROFESSIONAL HEALTHCARE INSTITUTE, INC.
SCHEDULE OF OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2013**

<u>Federal Grantor / Pass-through Grantor / Program Title</u>	<u>Federal CFDA Number</u>	<u>Federal Agency Award Number</u>	<u>Pass-through Entity Number</u>	<u>Federal Expenditures</u>
U.S. Department of Agriculture Passed through New York State Office of Temporary & Disability Assistance Food Stamp Employment & Training Venture II	10.561		C021197	\$ 260,000
U.S. Department of Education Passed through University of California National Institute on Disability and Rehabilitation Research	84.133B	H133B080002	5226SC	100,000
U.S. Department of Health and Human Services Passed through Structured Employment Economic and Development Corporation Career Pathways Program	93.558			83,500
U.S. Department of Health and Human Services Passed through Michigan Office of Services to the Aging Affordable Care Act (ACA) Personal and Home Care Aide State Training Program	93.512	T82HP30433	20121763 and 20131579	55,152
ARRA U.S. Department of Labor Passed through University of New Hampshire Program of Competitive Grants for Worker Training and Placement in High Growth and Emerging Industry Sectors	17.275	GJ-20054- 10-60-A-33	11-022	<u>19,213</u>
Total Federal Awards				<u>\$ 517,865</u>

**PARAPROFESSIONAL HEALTHCARE INSTITUTE, INC.
NOTES TO SCHEDULE OF EXPENDITURE OF FEDERAL AWARDS
JUNE 30, 2013**

NOTE 1 BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of Paraprofessional Healthcare Institute, Inc. under programs of the federal government for the year ended June 30, 2013. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the financial statements.

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 OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Pass-through entity identifying numbers are presented where available.

NOTE 3 AMOUNTS PROVIDED TO SUBRECIPIENTS

Cooperative Home Care Associates, Inc. ("CHCA") is the subrecipient of the New York State Office of Temporary & Assistance Food Stamp Employment & Training Ventures contract and the Structured Employment Economic and Development Corporation Career Pathways Program contract. Total amount of federal grant funds provided to CHCA was \$316,342 for the year.

<u>CFDA #</u>	<u>Program Name</u>	<u>Amount Provided to Subrecipient</u>
10.561	Food Stamp Employment & Training Venture II	\$ 232,842
93.558	Career Pathways Program	<u>83,500</u>
		<u>\$ 316,342</u>

MEMBERS
AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS
NEW YORK STATE SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS

**INDEPENDENT AUDITOR'S REPORT ON
INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Board of Directors
Paraprofessional Healthcare Institute, Inc.
Bronx, New York

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Paraprofessional Healthcare Institute, Inc., which comprise the statement of financial position as of June 30, 2013, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated February 10, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Paraprofessional Healthcare Institute, Inc.'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 Paraprofessional Healthcare Institute, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Paraprofessional Healthcare Institute, Inc.'s internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Paraprofessional Healthcare Institute, Inc.'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 the organization'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 organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Wm. Lane & Co., P.C." The signature is written in a cursive, flowing style.

New York, New York
February 10, 2014

MEMBERS
AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS
NEW YORK STATE SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
REQUIREMENTS THAT COULD HAVE DIRECT AND MATERIAL EFFECT ON
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Board of Directors
Paraprofessional Healthcare Institute, Inc.
Bronx, New York

Report on Compliance for Each Major Federal Program

We have audited Paraprofessional Healthcare Institute, Inc.'s compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Paraprofessional Healthcare Institute, Inc.'s major federal programs for the year ended June 30, 2013. Paraprofessional Healthcare Institute, Inc.'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 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 Paraprofessional Healthcare Institute, Inc.'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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 Paraprofessional Healthcare Institute, Inc.'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 of Paraprofessional Healthcare Institute, Inc.'s compliance.

Opinion on Each Major Federal Program

In our opinion, Paraprofessional Healthcare Institute, Inc. 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 June 30, 2013.

Report on Internal Control Over Compliance

Management of Paraprofessional Healthcare Institute, Inc. 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 Paraprofessional Healthcare Institute, Inc.'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 an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 Paraprofessional Healthcare Institute, Inc.'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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Winne Lam & Co., P.C.".

New York, New York
February 10, 2014

**PARAPROFESSIONAL HEALTHCARE INSTITUTE, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013**

Part I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:
• Material weakness(es) identified? Yes No
• Significant deficiencies identified that are not considered to be material weakness(es)? Yes None Reported

Noncompliance material to financial statements noted? Yes No

Federal Awards

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

Internal control over major programs:
• Material weakness(es) identified? Yes No
• Significant deficiencies identified that are not considered to be material weakness(es)? Yes None Reported

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133? Yes No

Programs: Subjected to Audit Procedures as Major Programs
CDEA # Name
10.561 Food Stamp Employment & Training Venture II
93.558 Career Pathways Program
84.133B National Institute on Disability and Rehabilitation Research

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

Auditee qualified as a low-risk auditee? Yes No

Part II - Financial Statement Findings

None reported

Part III - Federal Awards Findings and Questioned Costs

None reported

**PARAPROFESSIONAL HEALTHCARE INSTITUTE, INC.
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2013**

- None -

**PARAPROFESSIONAL HEALTHCARE INSTITUTE, INC.
SUMMARY OF PRIOR YEAR FINDINGS AND CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2013**

- None -