COLLIER HEALTH SERVICES, INC. dba HEALTHCARE NETWORK OF SOUTHWEST FLORIDA AND AFFLIATES

CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION TOGETHER WITH REPORTS OF INDEPENDENT AUDITOR

YEARS ENDED MARCH 31, 2014 AND 2013

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Certified Public Accountants & Consultants

Affiliations
Florida Institute of Certified Public Accountants
American Institute of Certified Public Accountants
Private Companies Practice Section
Tax Division

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Collier Health Services, Inc.
dba Healthcare Network of Southwest Florida and Affiliates
1454 Madison Avenue West
Immokalee, FL 34142

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Collier Health Services, Inc. (a not-for-profit organization) dba Healthcare Network of Southwest Florida and Affiliates which comprise the consolidated statements of financial position as of March 31, 2014 and 2013, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of Integral Health Plan, Inc., an affiliate, which statements reflect total assets of $20,186,501 and $14,450,340 as of March 31, 2014 and 2013, respectively, and the total revenues and support of $95,723,630 and $59,973,311, respectively, for the years then ended. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for Integral Health Plan, Inc., is based solely on the reports of the other auditors. 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 of America. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

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

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

Opinion

In our opinion, based on our audits and the reports of other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Collier Health Services, Inc. dba Healthcare Network of Southwest Florida and Affiliates as of March 31, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements of Collier Health Services, Inc. dba Healthcare Network of Southwest Florida and Affiliates taken as a whole. The accompanying consolidated schedule of expenditures of federal awards for the year ended March 31, 2014 and the notes thereto are presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations" and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying consolidated schedule of expenditures of federal awards for the year ended March 31, 2014 and the notes thereto are fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

The accompanying consolidating statements of financial position as of March 31, 2014 and 2013, and consolidating statements of activities for the years then ended, are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

Other Information

The Exhibit - Management's Response to Independent Auditor's Report to Management, is not a required part of the consolidated financial statements but is required by Government Auditing Standards. Such information has not been subjected to the auditing procedures applied in the audits of the consolidated financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated November 13, 2014, on our consideration of Collier Health Services, Inc. dba Healthcare Network of Southwest Florida and Affiliates' 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 the 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 Collier Health Services, Inc. dba Healthcare Network of Southwest Florida and Affiliates' internal control over financial reporting and compliance.

Tuscan & Company, P.A.

TUSCAN & COMPANY, P.A.
Fort Myers, Florida
November 13, 2014

COLLIER HEALTH SERVICES, INC. AND AFFILIATES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
March 31, 2014 and 2013

	2014	2013
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents, including restricted amounts	$ 10,391,723	$ 9,886,088
Certificates of deposit, including restricted amounts	845,088	5,450,439
Statutory deposits	3,189,685	4,138,045
Investments	626,054	628,020
Patient receivables, net	4,654,369	2,864,796
Grants receivable	107,956	25,535
Other receivables	2,370,788	1,055,324
Assets held in trust	-	131,467
Pledged investments - IPDA	1,991,479	1,626,125
Inventory	182,803	192,173
Prepaid expenses	98,114	175,082
TOTAL CURRENT ASSETS	24,458,059	26,173,094
LONG TERM INVESTMENTS	3,054,910	2,998,596
DEFERRED CONTRACT ACQUISITION CHARGES	1,256,265	-
PROPERTY AND EQUIPMENT, NET	10,800,943	7,201,870
OTHER ASSETS	643,404	642,449
TOTAL ASSETS	$ 40,213,581	$ 37,016,009
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	$ 3,549,468	$ 3,981,967
Medical claims payable	7,531,008	6,608,590
Accrued liabilities	875,352	3,952,083
Pension Plan payable	330,535	209,566
Unearned revenue	87,849	-
Assets held in trust	-	131,467
OPEB Liability	700,259	351,885
Current portion of note and mortgage payable	90,903	-
Current portion of capital lease payable	151,484	142,177
TOTAL CURRENT LIABILITIES	13,316,858	15,377,735
ACCRUED COMPENSATED ABSENCES	957,088	1,072,497
NOTE AND MORTGAGE PAYABLE, NET OF CURRENT PORTION	6,047,142	-
CAPITAL LEASE PAYABLE, NET OF CURRENT PORTION	2,014,963	2,166,446
COMMITMENTS AND CONTINGENCIES	-	-
TOTAL LIABILITIES	22,336,051	18,616,678
NET ASSETS		
Unrestricted	14,714,511	11,492,570
Unrestricted, Board designated	1,826,016	6,429,823
TOTAL UNRESTRICTED NET ASSETS	16,540,527	17,922,393
TEMPORARILY RESTRICTED	1,187,003	476,938
PERMANENTLY RESTRICTED	150,000	-
TOTAL NET ASSETS	17,877,530	18,399,331
TOTAL LIABILITIES AND NET ASSETS	$ 40,213,581	$ 37,016,009

The accompanying notes are an integral part of this statement.

COLLIER HEALTH SERVICES, INC. AND AFFILIATES
CONSOLIDATED STATEMENTS OF ACTIVITIES
Years ended March 31, 2014 and 2013

	2014			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
CHANGES IN NET ASSETS				
REVENUES AND SUPPORT				
Federal grants	$ 7,167,841	$ -	-	$ 7,167,841
Medicaid premium revenues	95,664,053	-	-	95,664,053
Patient service fees, net	17,726,749	-	-	17,726,749
In-kind contributions	3,259,835	-	-	3,259,835
Other	723,624	-	-	723,624
Management fees	1,241,840	-	-	1,241,840
Contributions	49,890	448,937	75,000	573,827
Other grants	368,245	162,764	-	531,009
Fundraising	-	-	-	-
Investment income, net of fees and costs	95,495	-	-	95,495
Unrealized gain on investments	-	-	-	-
TOTAL REVENUE AND SUPPORT	126,297,572	611,701	75,000	126,984,273
Net Assets Released from Restrictions	(173,364)	98,364	75,000	-
TOTAL	126,124,208	710,065	150,000	126,984,273
EXPENSES				
Program services	120,547,238	-	-	120,547,238
Supporting services	6,687,126	-	-	6,687,126
Fundraising	271,710	-	-	271,710
TOTAL EXPENSES	127,506,074	-	-	127,506,074
INCREASE (DECREASE) IN NET ASSETS	(1,381,866)	710,065	150,000	(521,801)
NET ASSETS, BEGINNING OF YEAR	17,922,393	476,938	-	18,399,331
NET ASSETS, END OF YEAR	$ 16,540,527	$ 1,187,003	$ 150,000	$ 17,877,530

The accompanying notes are an integral part of this statement.

2013		
Unrestricted	Temporarily Restricted	Total
$ 6,810,478	$ 117,887	$ 6,928,365
59,973,311	-	59,973,311
14,547,862	-	14,547,862
2,004,794	-	2,004,794
819,858	-	819,858
988,572	-	988,572
(14,655)	465,536	450,881
209,749	72,493	282,242
-	-	-
27,079	-	27,079
5,098	-	5,098
85,372,146	655,916	86,028,062
712,488	(712,488)	-
86,084,634	(56,572)	86,028,062
78,924,414	-	78,924,414
5,522,177	-	5,522,177
387,244	-	387,244
84,833,835	-	84,833,835
1,250,799	(56,572)	1,194,227
16,671,594	533,510	17,205,104
$ 17,922,393	$ 476,938	$ 18,399,331

The accompanying notes are an integral part of this statement.

COLLIER HEALTH SERVICES, INC. AND AFFILIATES
CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES
Years ended March 31, 2014 and 2013

	2014			
		Supporting Services		
	Program Services	Management and General	Fundraising	Total Expenses
FUNCTIONAL EXPENSES				
Salaries	$ 12,818,063	$ 2,679,291	$ 192,420	$ 15,689,774
Payroll taxes	1,213,427	253,636	13,801	1,480,864
Fringe benefits	2,966,447	607,585	-	3,574,032
Charitable contributions	-	129,626	24,520	154,146
Computer	297,495	728,443	4,864	1,030,802
Contractual expense	1,243,206	254,633	-	1,497,839
Equipment lease	173,953	36,360	-	210,313
Facility lease and related	642,741	128,043	-	770,784
Fundraising	11,574	2,419	-	13,993
In-kind	3,261,401	-	-	3,261,401
Insurance	134,772	67,388	-	202,160
Interest and bank fees	172,065	35,966	215	208,246
Legal, audit and consulting	566,006	1,034,688	-	1,600,694
Maintenance and repairs	325,967	68,135	-	394,102
Management fees	8,597,696	-	-	8,597,696
Marketing	33,539	12,528	4,129	50,196
Medical services, net	81,256,650	-	-	81,256,650
Other	1,273,615	52,455	1,466	1,327,536
Patient care	2,718,491	-	-	2,718,491
Printing	15,697	3,281	6,161	25,139
Postage	27,963	5,845	208	34,016
Supplies	268,299	56,081	1,818	326,198
Training	109,767	6,050	6,300	122,117
Travel	174,449	36,464	8,832	219,745
Unrealized loss on investments	-	27,198	-	27,198
Utilities	1,455,936	304,326	2,492	1,762,754
Vehicle	95,323	19,925	-	115,248
	119,854,542	6,550,366	267,226	126,672,134
Depreciation	692,696	136,760	4,484	833,940
TOTAL EXPENSES	$ 120,547,238	$ 6,687,126	$ 271,710	$ 127,506,074

The accompanying notes are an integral part of this statement.

2013			
	Supporting Services		
Program Services	Management and General	Fundraising	Total Expenses
$ 12,183,743	$ 2,622,585	$ 206,970	$ 15,013,298
1,017,765	111,589	19,368	1,148,722
2,870,155	314,688	35,016	3,219,859
58,366	6,399	4,600	69,365
633,371	28,429	8,970	670,770
796,060	1,500,000	-	2,296,060
155,092	17,005	-	172,097
616,086	73,001	-	689,087
-	-	24,340	24,340
1,994,794	-	64,967	2,059,761
116,961	45,792	-	162,753
210,190	18,901	572	229,663
547,086	276,050	-	823,136
348,726	38,235	-	386,961
4,638,871	-	-	4,638,871
12,099	1,217	10,393	23,709
47,644,823	-	-	47,644,823
635,189	195,110	761	831,060
2,308,845	-	-	2,308,845
37,854	4,150	2,464	44,468
25,282	2,772	230	28,284
287,830	31,558	3,321	322,709
37,396	43,060	-	80,456
217,159	23,810	2,661	243,630
-	-	-	-
712,085	78,075	2,402	792,562
109,535	12,010	-	121,545
78,215,363	5,444,436	387,035	84,046,834
709,051	77,741	209	787,001
$ 78,924,414	$ 5,522,177	$ 387,244	$ 84,833,835

The accompanying notes are an integral part of this statement.

COLLIER HEALTH SERVICES, INC. AND AFFILIATES
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended March 31, 2014 and 2013

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase (decrease) in net assets and other operating activities	$ (521,801)	$ 1,194,227
Adjustments to reconcile increase in net assets to net cash provided by operating activities		
Depreciation	833,940	787,001
Provision for uncollectible accounts	49,606	546,856
Gain on disposal of fixed assets	14,152	(476)
Non-cash donation of equipment	-	(10,000)
Non-cash contribution of stock	-	-
Unrealized (gain)/loss on investments	81,667	37,151
Changes in:		
Statutory deposits	948,360	(4,138,045)
Patient accounts receivable, net	(1,839,179)	(1,063,968)
Grants receivable	(82,421)	193,548
Other receivables	(1,315,464)	(407,596)
Deferred charges	(1,256,265)	-
Assets held in trust	131,467	(7,016)
Pledged investments - IPDA	(365,354)	(243,149)
Inventory	9,370	3,830
Prepaid expenses	76,968	(92,369)
Other assets	(955)	-
Accounts payable	(432,499)	669,070
Medical claims payable	922,418	1,738,157
Interest payable	-	(179,920)
Pension plan payable	120,969	-
Accrued liabilities	(3,076,731)	3,099,398
Assets held in trust and other	(131,467)	243,782
Unearned revenue	87,849	-
OPEB liability	348,374	(218,514)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	(5,396,996)	2,151,967

The accompanying notes are an integral part of this statement.

	2014	2013
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	$ (4,497,919)	$ (596,394)
Proceeds from sale of property and equipment	50,754	11,000
Redemptions of certificates of deposit	4,616,037	127,240
Investment fee activity, net	(146,701)	-
Purchases of certificates of deposit	-	(4,117,738)
Purchases of investments, net	-	(3,180,878)
Redemption of other assets, net	-	2,559
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	22,171	(7,754,211)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of debt	$ 6,138,045	$ -
Principal payments on note payable	-	(3,310,878)
Principal payments on capital lease payable	(142,176)	(133,485)
Net increase (decrease) in compensated absences	(115,409)	(534,360)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	5,880,460	(3,978,723)
NET INCREASE (DECREASE) IN CASH	505,635	(9,580,967)
CASH, BEGINNING OF YEAR	9,886,088	19,467,055
CASH, END OF YEAR	$ 10,391,723	$ 9,886,088
SUPPLEMENTAL DISCLOSURE:		
Cash paid for interest expense	$ 432,486	$ 189,315

The accompanying notes are an integral part of this statement.

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and nature of operations

These financial statements present the consolidated financial results of Collier Health Services, Inc., Integral Health Plan (IHP) and the Collier Health Services Foundation, Inc. (Foundation) , with all significant balances and transactions between the entities eliminated. Together, Collier Health Services, Inc., IHP and the Foundation are referred to in the notes to the consolidated financial statements as the “Organization”.

Collier Health Services, Inc. d/b/a (doing business as) Healthcare Network of Southwest Florida (HCN) was originally founded under the laws of Florida as a not-for-profit organization in 1977 by a group of community leaders to provide primary medical and dental service to migrant and seasonal farm workers, rural poor and other citizens in Collier County, Florida. HCN's current mission is to provide quality healthcare accessible to everyone in the community. Specifically, HCN provides children's medical care, family medical care, women's medical care as well as dental care through their various locations and Ronald McDonald Care Mobile. The services are available to the general public but are substantially utilized by those qualified under the various "low income" standards and by domestic, agricultural, migrant and seasonal workers, most of whom are disadvantaged. HCN is a significant Medicaid provider and serves insured and uninsured patients. HCN is a Federally Qualified Health Center (FQHC) and charges for services are based upon a patient's ability to pay in accordance with federal guidelines. HCN has elected a March 31 fiscal year-end.

Integral Health Plan, Inc. (“IHP”) was incorporated on January 12, 2009, under the laws of Florida as a not-for-profit organization to manage the care of Medicaid beneficiaries in the State of Florida. IHP operates under the name of Integral Quality Care in Collier, Manatee, Polk, Marion, Sumter, Highlands, Hillsborough, Hardee, Hendry, Desoto, Sarasota, Citrus and Lee Counties. Since HCN is the majority member of IHP, IHP is therefore consolidated into HCN for financial reporting purposes. IHP has elected a December 31 fiscal year-end. However, these consolidated financial statements include audited financial statements for IHP for the twelve month period as of and for the period ended March 31, 2014. The IHP's primary purpose is to provide quality healthcare within a managed care framework. IHP has contracts with the State of Florida Agency for Health Care Administration (AHCA) under the Florida Medicaid program, which requires IHP to provide

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Organization and nature of operations, continued

healthcare services to its Medicaid beneficiaries for a capitated per-member, per-month premium. IHP began enrolling members in April 2010 and, as of March 31, 2014, provides healthcare services to approximately 35,000 beneficiaries. All of IHP's premium revenue was earned from its contract with State of Florida Medicaid for the years ended March 31, 2014 and 2013.

Effective July 1, 2013, Independent Living Systems, LLC (ILS) began providing management and administrative services for IHP. Prior thereto, Aetna Medicaid Administrators LLC (AMA, formerly known as Schaller Anderson of Arizona, LLC, a subsidiary of Aetna Insurance Company) provided similar services to IHP through June 30, 2013. AMA continued to perform certain services for IHP during the period July 2013 through March 2014 as a sub-contractor to ILS pursuant to a transition services agreement.

The Collier Health Services Foundation, Inc. (the “Foundation”) was incorporated on January 31, 2007, under the laws of Florida as a not-for-profit organization to support the programs and services of HCN. The Foundation on October 31, 2008 changed its name to CHS Healthcare Foundation, Inc. The Foundation subsequently registered with the State of Florida to do business as (dba) Healthcare Network of Southwest Florida Foundation on July 9, 2012. The Foundation exclusively solicits contributions on behalf of HCN. Therefore, the Foundation is consolidated into the HCN financial statements for financial reporting purposes. The Foundation has elected a March 31 fiscal year end.

The following is a summary of the significant accounting policies used in the preparation of these financial statements:

Basis of accounting

The Organization prepares its consolidated financial statements on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America.

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Financial statement presentation

The accounting and reporting policies of the Organization are in accordance with the auditing and accounting standards issued by the American Institute of Certified Public Accountants in its audit guide, "Not-for-Profit Organizations" and the accounting standards issued by the Financial Accounting Standards Board (FASB) in the Accounting Standards Codification (ASC).

Cash and cash equivalents

Cash is stated at the book balance which approximates fair value. Cash is comprised of cash on hand, depository accounts and money market accounts. The Organization maintains cash balances at various financial institutions to reduce its concentration of risk and to maximize its benefit from FDIC insurance coverage. The cash and cash equivalents, at each institution, are insured by the Federal Deposit Insurance Corporation up to $250,000 per institution.

For purposes of the statements of cash flows, the Organization considers all unrestricted highly liquid investments with an original maturity of three months or less to be cash equivalents.

Investments

Investments in marketable securities with readily determinable fair values and all investment in debt securities are reported at their fair values on the consolidated statements of financial position. Gains and losses are determined using the specific identification method when securities are sold or matured. Unrealized gains and losses are included in the change in net assets on the consolidated statements of activities.

HCN has designated substantially all of the investments held by IHP as trading. Investments in debt and equity securities with readily determinable fair values are measured at fair value using quoted market prices. Investment income includes realized gains and losses on trading securities, interest and dividends.

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Deferred Contract Acquisition Charges

Financial Accounting Standards Board (FASB) Accounting Standards Update *(ASU) No. 2010-26, Financial Services – Insurance (Topic 944): Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts (a consensus of the FASB Emerging Issues Task Force*), states that only acquisition costs that are directly related to the successful acquisition of a contract can be capitalized as deferred acquisition costs. During the year ended March 31, 2014, IHP incurred deferred charges associated with the bid proposal for the Florida Invitation to Negotiate for the Statewide Medicaid Managed Care Program and region expansions. These charges include consulting, legal, and financing expenses. Charges will be amortized over the term of the contract.

Receivables and allowance for uncollectible accounts

The Organization accounts for potential losses in accounts receivable utilizing the allowance method. The Organization maintains an allowance for uncollectible accounts at an amount that it believes is sufficient to provide adequate protection against future losses. Provisions for losses are determined principally on the basis of experiences in the preceding months, taking into account historical collection rates for various categories of payees. All accounts or portions thereof deemed to be uncollectible are written off to the allowance for uncollectible accounts.

Pledged investments - IPDA

IHP has an Insolvency Protection Deposit Account (IPDA) whereas it is required by the State of Florida Agency for Health Care Administration (AHCA) to deposit 5% of monthly revenues until 2% of the contracted amount of $479,902,189 (or $9,598,044) is attained. The account balances as of March 31, 2014 and 2013 were $1,991,479 and $1,626,125, respectively, which are in interest bearing cash accounts.

Inventory

Inventories of pharmaceutical and consumable supplies on hand are stated at the lower of cost or market using the first-in first-out inventory method. Inventory balances are substantially comprised of pharmaceutical goods.

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Other Assets

The equity investment in Lee County Electric Cooperative, Inc. ("LCEC") is valued by LCEC based on the electric fees paid by the Organization to LCEC. For each year that LCEC earns a positive net margin, a percentage of what is paid for electricity is credited to HCN as equity. The overall investment value is the accumulation of equity credits received over the life of HCN's membership with LCEC. Equity distributions are approved at the discretion of the LCEC Board of Trustees and are shown as a reduction in the investment balance.

Property and equipment

Property and equipment (fixed assets) are recorded at cost, or if donated, at fair market value on the date of donation. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time. The Organization capitalizes assets with a cost or donated fair value of $5,000 or more and a useful life of one year or more. For the years ended March 31, 2014 and 2013, debt related interest costs were capitalized as part of property and equipment in the amount of $0 and $0, respectively.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets. The cost of assets retired or sold, together with the related accumulated depreciation, is removed from the accounts and any gain or loss on disposition is credited or charged to earnings.

Property and equipment held under capital leases is recorded at the present value of minimum lease payments over the term of the lease and is amortized using the straight-line method over their estimated useful lives. At March 31, 2014 and 2013, the Organization held assets in the amount of $2,266,667 and $2,372,121, respectively, under capital leases.

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Property and equipment, continued

The Federal government, as well as the State of Florida have rights and/or security interests over certain property and equipment acquired with grant funds, as well as the proceeds from the disposition of such assets.

Impairment of fixed assets

The Organization adheres to the FASB ASC 360-10-50-2 (formerly Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards (SFAS) No. 144), "Accounting for the Impairment or Disposal of Long-Lived Assets"). FASB ASC 360-10-50-2 requires, among other things, that entities identify events or changes in circumstances which indicate that the carrying amount of an asset may not be recoverable.

There was no effect on the Organizations' consolidated financial statements resulting from FASB ASC 360-10-50-2 for the years ended March 31, 2014 or 2013.

Compensated absences

The Organization’s employees are entitled to paid vacation days. The amount accrued is based upon the employee’s length of service up to a cumulative maximum of 240 hours. An accrued liability has been established for the employees' accrued compensated absences.

Recognition of donor restrictions

Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires, or when the purpose restriction is met temporarily restricted net assets are reclassified to unrestricted net assets. For the years ended March 31, 2014 and 2013, the Organization had $150,000 and $0, respectively, permanently restricted net assets.

Support from federal and state grants is recorded based upon the terms of the grantor allotment, which generally provide that revenues are earned when the allowable costs of the specific grant provisions have been incurred.

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Current vulnerability due to certain concentrations

HCN is a multi-location medical practice including dental operations. HCN's operations are concentrated in Collier County. In addition, the Organization as a whole operates in a heavily regulated environment. The operations of the Organization are subject to the administrative directives, rules and regulations of federal, state and local regulatory agencies, including, but not limited to, the U.S. Department of Health & Human Services (HHS). Such administrative directives, rules and regulations are subject to change by an act of Congress or State Legislature, an administrative change mandated by HHS or other federal, state and local regulatory agencies. Mandated changes may occur with little notice or inadequate funding to pay for the related cost, including the additional administrative burden, to comply with a change.

Functional expenses

The Organization allocates and classifies its expenses on a functional basis by cost center among its various program and supporting services. The expenses that are directly attributable to the Organizations' programs have been charged directly to the program. Non-direct, non-facility related expenses are allocated to departments by the ratio of full time equivalent (“FTE”) employees in the department compared to the total number of FTEs. Facility related expenses are allocated according to a percentage of total square footage methodology.

Income taxes

The Organization (including HCN, IHP and the Foundation) is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The Organization is not classified as a private foundation within the meaning of Section 509(a) of the Code.

The Internal Revenue Code provides for taxation of unrelated business income under certain circumstances. The Organization reports no unrelated business taxable income; however, such status is subject to final determination upon examination of the related tax returns by the appropriate taxing authorities. The informational returns (Form 990) for the prior three (3) fiscal years remain open for examination.

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Income taxes, continued

Financial Accounting Standards Board Accounting Standards Codification (ASC) Topic 740, "Income Taxes", prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return, and provides guidance on derecognition, classification, interest and penalties, disclosure, and transition. Management believes that no such uncertain tax position exists for the Organization at March 31, 2014.

Revenues and support

HCN has agreements with third-party payors that provide for payments at amounts different from established rates. Patient service fees revenue is reported at the estimated net realizable amounts from patients, third party-payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Premiums received from the State of Florida Medicaid program for members are recognized as revenue during the period in which IHP is obligated to provide healthcare services. Medicaid premiums under the contract are paid on a monthly per-member, per-month basis dependent on the member's population group, geographic area and age. HCN also receives Medicaid premiums directly from the State of Florida at an agreed upon rate.

Medical services, net

IHP has entered into hospital service contracts to provide the necessary inpatient and outpatient hospital services to its beneficiaries. In return, IHP pays the participating hospitals at a negotiated rate based off the State's fee-for-service rates in effect at the time the services were provided to its beneficiaries. IHP has also entered into several agreements with network physicians and suppliers to provide medical services and supplies to IHP's beneficiaries at agreed upon fee-for-service rates or at fixed fees per member, per month (capitation). When members do not utilize medical services at providers in which IHP has agreements with, IHP pays the fee-for service rates in effect at the time the services were provided to its beneficiaries.

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Medical services, net, continued

Monthly capitation payments to primary care physicians and other healthcare providers are expensed as incurred. Medical services expenses and medical claims payable include amounts for known services rendered and an estimate of incurred but not reported services rendered by hospitals, physicians, and other healthcare providers. The estimated incurred but not reported medical claims payable liability has been actuarially determined based on relevant industry data and IHP's historical trends. Management believes that the methodologies employed to estimate the medical claims payable are reasonable and that the amount accrued is appropriate. Due to uncertainties inherent in the medical claims estimation process, there is a reasonable possibility that actual experience may vary from the accrued amounts.

Donated materials and services

In-kind contributions include personal services from medical and dental residents and students. The estimated current value of volunteer services is recorded at the same hourly rate that compensated employees receive for comparable duties. Contributions of services are recognized only if services received (a) create or enhance non-financial assets or (b) require specialized skills, are provided by individuals possessing these skills, and would typically be purchased if not provided by donations. These contributions are included in the consolidated statements of activities under revenues and support and the related costs are included on the accompanying consolidated statements of functional expenses.

Also a number of other volunteers, including the Board of Directors of all three entities which are consolidated herein, donate significant amounts of their time and expertise to the Organization and its programs. No amounts have been recorded for these donated services inasmuch as no objective basis is available to measure the value of such services.

The Organization receives donated rent for two (2) medical facilities and has recorded a contribution and related rent expense at an amount which approximates the value at a fair market rental value.

Advertising costs

It is the policy of the Organization to expense advertising costs when incurred.

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Stop-loss insurance

Stop-loss insurance premiums and recoveries are included in medical services, net in the accompanying consolidated statements of activities.

Statutory deposits

During the year ended March 31, 2013, HCN through IHP paid a cash deposit required by the State of Florida to make a proposal guarantee in the amount of $4,138,045 to respond to the Florida Invitation to Negotiate for the Statewide Medicaid, Managed Care Program for contracts becoming effective in 2014. A portion of the deposit was returned to IHP in February 2014 as a result of the contract being awarded to IHP. As of March 31, 2014, $3,189,685 continued to be recorded as statutory deposits held by AHCA.

As such, in February 2014, IHP entered into a new five year agreement with the Florida Agency for Healthcare Administration to provide services in Regions 6 and 8 under Florida's Medicaid Managed Care Assistance program. The contract was amended in March 2014 to add Region 1 effective June 1, 2014. As part of the agreement IHP was required to deliver a performance bond in the amount of $15,000,000 within 30 days of executing the contract on February 4, 2014. IHP obtained a performance bond of $15,000,000 on March 10, 2014.

Management estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires the Organization to make estimates and assumptions that affect the reported amounts of assets, liabilities and net assets and disclosure of contingent assets and liabilities and revenues and expenses during the years ended March 31, 2014 and 2013. Actual results could differ from those estimates.

Reclassifications

Certain reclassifications have been made in the 2013 financial statements to conform with the classifications used in 2014. These reclassifications had no impact on the financial position or changes in net assets as previously reported.

Subsequent events

Subsequent events have been evaluated through November 13, 2014, which is the date the consolidated financial statements were available to be issued.

NOTE B - CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following at March 31:

	2014	2013
Cash on hand	$ 4,475	$ 4,475
Depository, savings and money market accounts		
Restricted	923,982	865,665
Board designated	681,669	1,304,981
Unrestricted	8,781,597	7,710,967
	$10,391,723	$ 9,886,088

NOTE C - CERTIFICATES OF DEPOSIT

Certificates of deposit consist of the following at March 31:

	2014	2013
Restricted	$ 326,795	$ 325,597
Board designated	518,293	5,124,842
Unrestricted	-	-
	$ 845,088	$ 5,450,439

NOTE D - CONCENTRATION OF CREDIT RISK

The Organization maintains cash balances, certificates of deposit and interest-bearing State guaranty fund deposit accounts at several financial institutions which at times may exceed federally insured limits. Accounts and certificates of deposit at each institution are insured by the Federal Deposit Insurance Corporation ("FDIC") up to $250,000 per institution. The uninsured bank balances as of March 31, 2014 and 2013, were $9,158,247 and $10,630,281, respectively. Cash balances held at investment services companies and cash equivalents totaling $117,261 and $30,380, as of March 31, 2014 and 2013, respectively, are not insured by the FDIC. The Organization has not experienced any losses on such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents. It is management's belief that the uninsured cash and cash equivalents are not HRSA 330 funds.

NOTE E - INVESTMENTS

Investments consist of the following as of March 31:

	2014	2013
Cash	$ 117,261	$ 30,380
US govt. agency securities	199,319	466,363
Fixed income	3,093,495	2,869,155
Mortgage pools	270,889	260,718
	$ 3,680,964	$ 3,626,616

As of March 31, 2014 and 2013, investments of $626,054 and $0, respectively, are considered Board designated.

NOTE F - PATIENT RECEIVABLES

Patient receivables consist of the following at March 31:

	2014	2013
Medicaid	$ 2,383,658	$ 1,225,731
Medicare	88,905	135,458
Workers' compensation	5,740	3,230
Commercial insurance	632,354	824,554
Patient pays	768,273	462,640
Integral wraparound	1,896,261	1,284,399
	5,775,191	3,936,012
Less allowance for doubtful accounts and contractual adjustments	(1,120,822)	(1,071,216)
Patient receivables, net	$ 4,654,369	$ 2,864,796

The Organization considers bad debt expense a function of the contractual adjustment and therefore records bad debt expense against its net patient fees. The bad debt adjustments for the years ended March 31, 2014 and 2013, were $16,646 and $279,221, respectively.

A significant amount of the Organization's patient service revenue is derived from Medicaid, Medicare, third party reimbursement programs and private insurance carriers. Payments under the program for services are based on established amounts

NOTE F - PATIENT RECEIVABLES, CONTINUED

for the type of service provided. The difference between the charge for the service and the amount received is recorded as a contractual adjustment against patient service fee revenue. Patient receivables are reflected net of anticipated contractual adjustments and bad debt expense. Collection of these receivables are ultimately dependent upon approval to pay by the appropriate payor/carrier/insurer. The Organization establishes an allowance amount based upon known circumstances and collection history. Patient receivables are measured at fair value as determined net of bad debt charge offs and adjustments for an allowance amount.

NOTE G - GRANT RECEIVABLES

Grant receivables consist of the following at March 31:

U.S. Dept. of Health and Human Services	2014	2013
Outpatient Early Intervention Services - HIV	$ -	$ 10,566
Consolidated Health Centers	90,001	-
Other grants		
Healthy Start	13,064	10,169
Collier County Rural Health Network	4,891	4,800
	$ 107,956	$ 25,535

Management considers all grant receivables fully collectible at both March 31, 2014 and 2013.

NOTE H - ASSETS HELD IN TRUST

The Organization (employer) has an IRC Section 457(b) deferred compensation plan for a predetermined group of highly compensated management employees. Amounts deferred and earnings attributable to the deferrals are maintained as assets of the Organization and are subject to the claims of the employer's general creditors. This treatment of Plan assets as the property of the employer satisfies the requirement that the Plan be unfunded in order to be exempt from ERISA's minimum participation and vesting provisions, and other ERISA requirements. The Plan allows for contributions from salary reduction agreements and non-elective employer contributions.

NOTE H - ASSETS HELD IN TRUST, CONTINUED

All 457(b) Plan assets were held by a third party trustee, who is also the administrator of the Plan. During the year ended March 31, 2014, all Plan assets were distributed to the respective participants. Plan assets held in trust are carried by the Organization at fair value and are comprised of the following at March 31:

	2014	2013
457(b) deferred compensation plan	$ -	$ 131,467

These amounts are also included in these consolidated financial statements as assets held in trust and a similar offsetting liability.

NOTE I - PROPERTY AND EQUIPMENT

Property and equipment consists of the following at March 31:

	2014	2013
Land	$ 3,429,551	$ 445,000
Construction in process	16,901	11,651
Buildings and improvements	5,404,305	5,285,777
Leasehold improvements	2,420,142	2,343,938
Medical equipment	897,839	829,725
Vehicles	566,904	684,495
Furniture, fixtures and equipment	2,989,160	1,983,940
	15,724,802	11,584,526
Accumulated depreciation	(4,923,859)	(4,382,656)
	$10,800,943	$ 7,201,870

Assets held under capital lease consist of a building and the related land with an original cost of $2,750,000 at March 31, 2014 and 2013, respectively. Depreciation expense of $105,454 was recorded for the building for each of the years ended March 31, 2014 and 2013 (which is included in total depreciation expense).

Accumulated depreciation on assets held under capital lease totaled $483,333 and $377,879 at March 31, 2014 and 2013, respectively, and is included in total accumulated depreciation.

NOTE I - PROPERTY AND EQUIPMENT, CONTINUED

Depreciation expense for the years ended March 31, 2014 and 2013, was $833,940 and $787,001, respectively.

NOTE J - ACCRUED LIABILITIES

Accrued liabilities consist of the following at March 31:

	2014	2013
Accrued salaries and wages	$ 498,526	$ 408,358
Payroll taxes and other liabilities	130,576	140,371
Accrued lease payments	71,250	71,250
Compensated absences, current	90,000	-
SERP agreement	-	1,832,104
Consulting agreement and settlement	85,000	1,500,000
	$ 875,352	$ 3,952,083

NOTE K - MEDICAL CLAIMS PAYABLE

Activity for medical claims payable is summarized as follows for the year ended March 31, 2014:

	IHP	Eliminations	Consolidated
Medical claims payable at beginning of year	$ 6,608,590	$ -	$ 6,608,590
Incurred related to:			
Current year	68,681,774	(2,346,470)	66,335,304
Prior years	(370,417)	-	(370,417)
Total incurred	68,311,357	(2,346,470)	65,964,887
Paid related to:			
Current year	61,753,230	(2,346,470)	59,406,760
Prior years	5,635,709	-	5,635,709
Total paid	67,388,939	(2,346,470)	65,042,469
Medical claims payable at end of year	$ 7,531,008	$ -	$ 7,531,008

NOTE K - MEDICAL CLAIMS PAYABLE, CONTINUED

Activity for medical claims payable is summarized as follows for the year ended March 31, 2013:

	IHP	Eliminations	Consolidated
Medical claims payable at beginning of year	$ 4,882,660	$ (12,227)	$ 4,870,433
Incurred related to:			
Current year	33,741,391	(2,997,036)	30,744,355
Prior years	(1,595,783)	-	(1,595,783)
Total incurred	32,145,608	(2,997,036)	29,148,572
Paid related to:			
Current year	27,143,711	(2,997,036)	24,146,675
Prior years	3,275,967	(12,227)	3,263,740
Total paid	30,419,678	(3,009,263)	27,410,415
Medical claims payable at end of year	$ 6,608,590	$ -	$ 6,608,590

NOTE L - CAPITAL LEASE

HCN leases medical, dental and administrative office space (main campus in Immokalee) from NCH Healthcare System, Inc., under a capital lease dated September 9, 2009. The economic substance of the lease is that HCN is financing the acquisition of the property through a $2,750,000 capital lease, and accordingly, it is recorded in the HCN's assets and liabilities. The lease is for a period of 15 years with equal quarterly installments of $71,250, maturing in September 2024 with an option to purchase for $572,000. The imputed rate of interest for the lease is 6.364% at March 31, 2014.

NOTE L - CAPITAL LEASE, CONTINUED

Future minimum lease payments required under the lease are as follows:

Years Ending March 31	Principal	Interest	Total Amount
2015	$ 151,484	$ 133,516	$ 285,000
2016	161,422	123,578	285,000
2017	172,000	113,000	285,000
2018	183,271	101,729	285,000
2019	195,281	89,719	285,000
Thereafter	1,302,989	240,897	1,543,886
	$ 2,166,447	$ 802,439	2,968,886
		Less: amount representing interest	(802,439)
			2,166,447
		Less: current portion	(151,484)
		Long term	$2,014,963

Interest expense incurred related to the capital lease was $142,823 and $151,515 for the years ended March 31, 2014 and 2013, respectively.

NOTE M - NOTE AND MORTGAGE PAYABLE

Shaller Anderson, LLP, provided start-up capital for IHP through the issuance of a note payable during 2010. The note was entered into in March 2010 for an initial principal amount of $800,000. An amendment to the note for start-up expenses was executed in April 2010 for $2,510,878 which accrued no interest. The initial principal amount of $800,000 accrued interest at a fixed rate of 7%. Payments made by IHP were applied first towards repayment of the start-up expenses, and upon repayment of the start-up expenses in full then towards satisfaction of the original $800,000 note and any interest accrued, subject to the approval of the Agency for Health Care Administration (AHCA).

The note payable including principal and interest was repaid during the year ended March 31, 2013.

NOTE M - NOTE AND MORTGAGE PAYABLE, CONTINUED

Note and mortgage payable consists of the following obligations at March 31:

	2014	2013
ILS provided cash to IHP in 2013 pursuant to a promissory note that was issued in March 2013 to fund the bid deposit required in responding to the Florida Invitation to Negotiate for the Statewide Medicaid Managed Care Program. The initial principal amount of $4,138,045 accrues interest at 7% per annum. Accrued interest is payable monthly beginning April 2013. Interest paid during the year ended March 31, 2014 of $289,663 has been classified as deferred contract acquisition charges and recorded in the statement of financial position at March 31, 2014. The principal is payable when the deposit is returned from the State of Florida. In February 2014, the note was amended extending the maturity date to February 19, 2017.	$4,138,045	$ -
Mortgage payable ($2,000,000) for the purchase of land dated March 24, 2014, to a Florida corporation, payable in 48 monthly installments of $14,794 beginning on May 24, 2014. Payments include principal and interest at a fixed rate of 4%. The obligation is collateralized by the respective real property in Golden Gate. Final payment is a balloon payment of all remaining outstanding principal and accrued interest ($1,587,223) due April 24, 2018.	2,000,000	-
	6,138,045	-
Current Portion	(90,903)	-
Long-Term Portion	$6,047,142	$ -

Interest expense incurred related to the notes and mortgage payable was $289,663 and $37,800 for the years ended March 31, 2014 and 2013, respectively.

NOTE M - NOTE AND MORTGAGE PAYABLE, CONTINUED

Principal maturities of the note and mortgage payable are as follows:

Years Ending March 31	Amount
2015	$ 90,903
2016	103,037
2017	4,245,279
2018	111,603
2019	1,587,223
	$ 6,138,045

NOTE N - SCHEDULE OF NET ASSETS

Net assets consist of the following at March 31:

	2014	2013
Unrestricted - undesignated	$ 14,714,511	$ 11,492,570
Unrestricted - designated:		
Future operations	826,016	5,829,823
Future Care Mobile operations	-	300,000
Foundation	1,000,000	300,000
Total unrestricted, designated	1,826,016	6,429,823
Restricted:		
CareMobile	899,665	289,155
Foundation support	85,073	106,461
Susan G. Komen Foundation	4,455	-
Dental care	15,023	22,087
Indigent care - adults - Sister V	5,598	20,471
HCN children's fund	682	7,584
Reach out and read	6,473	9,226
Community Foundation - generators	-	10,000
Indigent care - children	4,294	948
Wells Fargo - education	2,976	2,976
United Way	-	3,030
UF Equipment & Depreciation	162,764	-
Mammogram	-	5,000
Total temporarily restricted	1,187,003	476,938
Permanently restricted Nursing Scholarship	150,000	-
	$ 17,877,530	$ 18,399,331

The Foundation funded and established a scholarship endowment on March 31, 2014. As such it was in the process of developing its endowment investment policy.

NOTE O - CONTINGENCIES

The Organization is currently receiving, and has received in the past, grants, Medicare, Medicaid and other third party reimbursement funds which are subject to special compliance audits by the grantor or agencies that provide these reimbursements. These audits may result in disallowed expense amounts.

Disallowed amounts, if any, constitute a contingent liability of the Organization. The Organization believes contingent liabilities, if any, are not material. Accordingly, such liabilities are not reflected within the consolidated financial statements.

NOTE P - IN-KIND CONTRIBUTIONS

In-kind contributions represent the fair market values for goods and services donated to the organization as follows for the years ended March 31:

Donor	Item	2014	2013
Dental professionals and students	Services	$ 566,137	$ 560,881
Florida State University	Rent	453,600	453,600
Florida State University	Utilities & Repairs	197,694	-
University of Florida	Rent	130,237	130,237
University of Florida	Equipment rental	175,000	175,000
State of Florida	Vaccines	1,714,933	662,929
Various	Misc. donated items	22,234	-
Various	Medical equipment	-	10,000
Various	Supplies	-	12,147
		$ 3,259,835	$ 2,004,794

NOTE Q - PENSION PLANS AND OTHER EMPLOYEE BENEFITS

401(a) Defined Contribution Plan

The Organization maintains a non-participant directed defined contribution plan (CHS Retirement Plan) which is available to substantially all of its employees after six months of qualified service. The Plan has no minimum age requirement. Participants vest over a six (6) year period of qualified service. Plan entry is April 1st following completion of six months of service. The Plan is administered by a third party. All assets of the Plan are held by a third party trustee. The Plan does not permit employee contributions.

NOTE Q - PENSION PLANS AND OTHER EMPLOYEE BENEFITS, CONTINUED

401(a) Defined Contribution Plan, continued

Normal retirement age is 65 and five (5) years of service. Employer contributions are discretionary, not limited to profits or accumulated profits, and are based on wages. For the years ending March 31, 2014 and 2013 contributions were 8.01% of participants' compensation, plus 5.4% of participants' compensation in excess of 80% of the Social Security taxable wage base plus $1. The Organization's contributions for the years ended March 31, 2014 and 2013, were $1,033,857 and $930,785, respectively, and are included in fringe benefits on the consolidated statements of functional expenses. Various distribution methods are available including loans and hardship distributions. Participant vesting in the plan is as follows:

Years of Service	% Vesting
2	20%
3	40%
4	60%
5	80%
6	100%

403(b) Tax-Deferred Annuity Plan

The Organization offers an IRC Section 403(b) tax-deferred annuity plan to its eligible employees. The Plan permits only employee salary reduction (deferral) contributions made pursuant to voluntary salary reduction agreements between the employer and its eligible employees. The contributions are excludable from gross income of the eligible employees under the Internal Revenue Code. The Plan does not provide for any other contributions by the employer or eligible employees. Employees are immediately vested in their respective account balances. The Plan is administered by a third party, and all assets of the Plan are held by a third party trustee.

457(b) Deferred Compensation Plan

The Organization offers its senior management employees an opportunity to defer compensation pursuant to a Top-Hat section 457(b) of the Code to supplement such employees' retirement benefits under the employer's retirement plan. Employees are fully vested when plan contributions are made. The amounts are maintained on the Organization's books in a designated account, assets held in trust, and remain the

NOTE Q - PENSION PLANS AND OTHER EMPLOYEE BENEFITS, CONTINUED

457(b) Deferred Compensation Plan, continued

sole property of the Organization and are available to satisfy the claims of all general creditors of the Organization.

Participants may elect to contribute to the Plan by election to defer sick and vacation pay as well as back pay in addition to regular pay. Various distribution options are available.

All section 457(b) Plan assets are held by a trustee, who is also the administrator of the Plan. The aforementioned assets are carried at fair value and included on the Statements of Financial Position as assets held in trust and as a liability - assets held in trust. At March 31, 2014 and 2013 assets held under the section 457(b) Plan were $0 and $131,467, respectively.

Other Post Retirement Benefits

The Organization has committed to pay certain post employment healthcare premiums for a former CFO and the CEO. As such, the Organization has actuarially determined the cost of these benefits and recorded the estimated liability. The liability for these benefits was recorded as part of the OPEB liability and was $700,259 and $351,885 for the years ended March 31, 2014 and 2013, respectively.

NOTE R - STATUTORY NET WORTH REQUIREMENT

Under Florida law, IHP is required to maintain at all times a surplus amount equal to the greater of $1.5 million, ten percent (10%) of total liabilities, two percent (2%) of the annualized amount of IHP's prepaid revenues or enter into an agreement with another entity to guarantee the surplus requirements.

At March 31, 2014, IHP met the reserve requirement as follows:

Minimum Requirement	$	1,500,000
10% of Total Liabilities		1,369,146
2% of Annualized Premium*		1,913,281
Required Reserve		1,913,281
Actual Surplus		6,495,040
Excess/ (Deficiency)	$	4,581,759

* Determined to be the greater amount

NOTE S - STOP-LOSS INSURANCE

IHP is financially responsible for the cost of each beneficiary's annual medical services. Annual covered services per beneficiary were limited as follows during the years ended March 31:

	2014	2013
Effective dates	April 1, 2013- March 31, 2014	April 1, 2012- March 31, 2013
Limits of coverage	$200,000 deductible	$200,000 deductible

Coverage above these stop-loss amounts is provided by an insurance company. The maximum reimbursement per beneficiary is limited to $2,000,000 in aggregate over all contract years.

For the years ended March 31, 2014 and 2013, IHP incurred stop-loss insurance premium expense of approximately $285,787 and $220,763, respectively, which is included in medical services, net on the consolidated statements of functional expenses. For the year ended March 31, 2014, IHP had two stop-loss insurance recoveries totaling $235,426. For the year ended March 31, 2013, IHP had no stop-loss recoveries.

NOTE T - LEASE COMMITMENTS

The Organization leases two administrative facilities, a billing office, seven clinical sites, storage facilities and housing for medical students under operating leases that expire from January 2013 to February 2018. Facilities rental expense for the years ended March 31, 2014 and 2013, was $734,937 and $649,310, respectively and is included in facility lease expense on the consolidated statements of functional expenses.

The Organization also leases (operating type) various office and medical equipment. Equipment rental expense for the years ended March 31, 2014 and 2013, was $35,847 and $39,777 respectively and is included in equipment lease expense on the consolidated statements of functional expenses.

NOTE T - LEASE COMMITMENTS, CONTINUED

Total future minimum lease payments required under facility and equipment leases are as follows:

Years Ending March 31	Facility Leases	Equipment Leases	Totals
2015	$ 673,550	$ 28,662	$ 702,212
2016	453,749	28,194	481,943
2017	251,509	18,796	270,305
2018	157,574	-	157,574
	$ 1,536,382	$ 75,652	$ 1,612,034

NOTE U - ECONOMIC DEPENDENCE

The operations of the Organization are dependent on the receipt of support and revenue from grantor agencies, Medicare and Medicaid. Loss of these funds and/or large decreases in these types of funding would have a material effect on the Organization and a negative impact on overall operations. For the years ended March 31, 2014 and 2013, approximately 81% and 78% of total support and revenue, respectively, was attributable to amounts received for the account classifications listed above.

NOTE V - LITIGATION

The Organization is involved from time to time in routine litigation, the substance of which would not materially affect its financial position, due to third party insurance coverage and/or federal tort limits. The Organization is not in a position at either March 31, 2014 or 2013 to predict a final outcome of such lawsuits or claims, or the related costs involved. The Organization intends to vigorously contest all claims unless first settled.

NOTE W - SUBSEQUENT EVENTS

Subsequent to year end on April 28, 2014, HCN purchased a building to be used as a medical facility located in Naples, Florida for a contract price of $500,000.

NOTE W - SUBSEQUENT EVENTS, CONTINUED

The $3,189,685 bid deposit due for AHCA for the remaining bid deposit was returned to Integral Health Plan, Inc. in May 2014.

In January 2014, Integral Quality Care, LLC, a for profit limited liability company was organized in the State of Delaware. In addition, Integral Quality First, Inc. was organized as a Florida corporation, with the intention that it would become a wholly owned subsidiary of Integral Quality Care, LLC. However, Integral Health Plan, Inc. concluded in May 2014 to dissolve these newly formed entities.

Effective May 1, 2014, Integral Health Plan, Inc. no longer operates in Marion, Sumter, and Citrus counties because its AHCA contract ended and was not renewed.

IHP has contracts with its FQHC providers that provide for distributions based on relative financial performance of each FQHC compared to total IHP results. The amount owed to HCN as of March 31, 2014 is $3,461,370 and would be eliminated as a consolidating entry, if paid. The potential disbursement amounts to the other FQHCs as of March 31, 2014 totalled $1,305,271. On October 10,2014 an agreement with one of those FQHCs was executed that terminated the previous ADS arrangement, with IHP providing a loan to HCN to cover the payment of $366,199 which was disbursed by HCN to the FQHC. The remaining FQHC disbursements of $3,461370 to HCN and $939,072 to the other FQHCs are contingent of IHP Board approval and adequate IHP net reserve requirements. Therefore, ate March 31, 2014, HCN had not recorded these transactions.

NOTE X - COMMITMENTS

The Organization maintains a $600,000 line of credit with a financial institution. Interest on the line of credit is payable at prime rate. It is collateralized by a lien against accounts receivable, inventory and equipment. There was no activity on the line of credit during the years ended March 31, 2014 or 2013, and there was no outstanding balance on the line of credit as of either year-end. The line of credit expires October 31, 2014.

NOTE X - COMMITMENTS, CONTINUED

By agreement with the State of Florida Agency for Health Care Administration (the “Agreement”), IHP is managing the medical care of Medicaid beneficiaries for a monthly capitation fee. The Agreement has a term of five (5) years and remains in effect unless terminated by either party with appropriate notice as defined in the Agreement. Future contract awards are contingent upon the continuation of the Medicaid program and IHP’s ability and desire to retain its status as a contractor under the program.

The Foundation established a permanently restricted scholarship fund of $150,000 by accepting a $75,000 donation from HCN's former CEO and matching $75,000 from HCN. The Foundation then committed to a local university's foundation to annually, on March 15, fund the scholarship in the amount of $7,500 beginning in 2014 for twenty (20) years. The Foundation further committed that if the $150,000 fails to earn $7,500 annually from market returns it will fund the scholarship in an amount not less than $5,000. The Foundation did distribute the $7,500 March 15, 2014 scholarship.

IHP entered into a management service agreement with AMA (Shaller) on February 1, 2010. Under the management service agreement, Schaller provides IHP with the services of personnel necessary for the management of its operations. In addition, Schaller pays all expenses of its management of IHP except for start-up equipment and the ongoing cost of insurance, legal fees, external audit and tax preparation.

IHP paid AMA a management fee of 10% of total Medicaid premium revenue through December 31, 2012. IHP entered into a second amendment of the management service agreement with AMA on January 1, 2013 to increase the rate to 11.5% of total Medicaid premium revenue and removed the annual supplemental compensation. IHP's agreement with AMA was terminated June 30, 2013.

NOTE X - COMMITMENTS, CONTINUED

IHP entered into a new management services agreement with ILS on July 1, 2013. Under this agreement, IHP will pay ILS a fee of 12.5% of Medicaid premium through December 31, 2014, and thereafter a percent of premium ranging from 11% to 12% based on total plan enrollment. Up to 1.5% of the fee is contingent upon IHP achieving and maintaining quality goals as established by the State of Florida. In the event that IHP does not attain all of the quality goals for any contract year the administrative fee for the next year will be adjusted by the unearned contingent percentage. ILS, and or its subsidiaries and/or sub-contractors, provide IHP with the services of personnel necessary for the management of its operations. In addition, ILS pays all expenses of its management of IHP except for start-up equipment and the ongoing cost of insurance, legal fees, external audit, and tax preparation. Effective July 1, 2013, HCN received $790,843 in reimbursement from ILS related to the leased employees, which is included in management fees expense of Integral. The employee leasing arrangement ended on April 30, 2015, when the leased employees were directly employed by Integral. IHP's agreement with ILS expires June 30, 2018 and may be extended for successive three year periods.

The total management fee paid to ILS and AMA for the year ended March 31, 2014 was $10,708,928 and $7,642,520, respectively. The total management fees of $7,642,520 paid to AMA for the year ended March 31, 2013 included base fees of $6,319,502 and Supplemental Management Fees of approximately $1,323,018.

IHP's future rates for the Medicaid program are subject to negotiation with and approval by the State of Florida Agency for Health Care Administration. Although

the Agreement remains in effect, unless terminated by either party with appropriate notice, future contract renewals are contingent upon the continuation of the program by the State of Florida and IHP's ability and desire to retain its status as a contractor under the program.

IHP maintains professional liability insurance that provides coverage on a claims-made basis. Claims asserted against IHP, may arise from past services rendered by network providers. Management is unable to estimate the ultimate costs, if any, of the resolution of potential claims, and accordingly, no accrual has been made at March 31, 2014 or March 31, 2013. Management believes that claims, if asserted, would be settled within the limits of insurance coverage.

NOTE Y - FAIR VALUE MEASUREMENTS

In accordance with ASC 820, the Organization uses fair value measurements to record adjustments to certain assets. The ASC 820 defines fair value as "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." The ASC also sets out a fair value hierarchy ranking the levels of the inputs used as assumptions in the valuation techniques used to value an asset or liability. The fair value hierarchy gives the highest priority to quoted prices in an active market for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of hierarchy are described as follows:

Level 1 - inputs are quoted market prices in active markets for identical assets or liabilities that are accessible at the measurement date. An active market is a market in which transactions of the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 - inputs are from other than quoted market prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These inputs include quoted market prices of similar assets or liabilities in active markets, quoted market prices for identical or similar assets or liabilities in markets that are not active, and pricing models developed principally from inputs from or corroborated by observable market data by correlation or other means.

Level 3 - inputs are unobservable and allowed in situations where there is little, if any, market activity for the asset or liability at measurement date. These inputs reflect the reporting entity's own assumptions about assumptions that would be used by market participants.

The Organization's accounting policy is to recognize transfers between levels of fair value hierarchy on the date of the event or change in circumstances that caused the transfer. There were no transfers into or out of Level 1, Level 2, or Level 3 during the years ended March 31, 2014 or 2013.

NOTE Y - FAIR VALUE MEASUREMENTS, CONTINUED

The table below presents assets and liabilities measured at fair value on a recurring basis by level within the hierarchy at March 31, 2014 and 2013:

March 31, 2014	Total	Level 1	Level 2	Level 3
Cash - IHP	$ 78,641	$ 78,641	$ -	$ -
Cash - HCN	38,620	38,620	-	-
Fixed income:				
Corporate bonds - IHP	1,216,250	-	1,216,250	-
Municipal bonds - IHP	1,289,812	-	1,289,812	-
Corporate bonds - HCN	369,869	-	369,869	-
Municipal bonds - HCN	31,241	-	31,241	-
Treasury Notes - HCN	96,103	-	96,103	-
US Govt Agency Bonds - HCN	90,220	-	90,220	-
US Govt Agency securities - IHP	199,318	199,318	-	-
Mortgage pools - IHP	270,890	-	270,890	-
Equity investment in LCEC	150,184	-	-	150,184
	$ 3,831,148	$ 316,579	$ 3,364,385	$ 150,184

March 31, 2013	Total	Level 1	Level 2	Level 3
Cash - IHP	$ 30,380	$ 30,380	$ -	$ -
Fixed income:				
Corporate bonds - IHP	883,290	-	883,290	-
Municipal bonds - IHP	1,357,845	-	1,357,845	-
Corporate bonds - HCN	336,991	336,991	-	-
Municipal bonds - HCN	291,029	291,029	-	-
Agency securities - IHP	466,363	466,363	-	-
Mortgage pools - IHP	260,718	-	260,718	-
Assets held in trust	131,467	131,467	-	-
Equity investment in LCEC	150,184	-	-	150,184
	$ 3,908,267	$ 1,256,230	$ 2,501,853	$ 150,184
Liabilities:				
Assets held in trust and other (1)	$ 131,467	$ 131,467	$ -	$ -

(1) The fair value of these liabilities is based on the composite of the investment noted above.

NOTE Y - FAIR VALUE MEASUREMENTS, CONTINUED

Level 2: Classifications consist of commingled funds where detailed holdings were available and the funds fair value could be determined based on market prices, such as money markets and certificates of deposits.

Level 3: Classifications consist of the following:

Equity Investment in LCEC - is the value of units of the accumulation of equity credits received over the life of HCN's membership with LCEC (an electrical co-op).

A rollfoward of the fair value measurements using unobservable inputs (Level 3) as of March 31, 2014 and 2013 were as follows:

	2014		2013
Beginning balance, April 1	$ 150,184		$ 147,994
Gains included in earnings	-	*	4,911
Purchases, sales and settlements			
Equity distribution	-	*	(2,721)
	$ 150,184		$ 150,184

* No recorded activity during the year ended March 31, 2014.

Financial instruments not measured at fair value

Financial instruments not measured at fair value include cash and cash equivalents, receivables, statutory deposits, inventory, prepaid expenses, deferred contract acquisition charges, accounts payable, various other payables and accrued expenses. The carrying amounts of these items approximate fair value due to the short term nature of the financial instruments.

NOTE Z - RELATED PARTY TRANSACTIONS

The Community Health Centers Alliance, Inc. (the “Alliance”) is a not-for-profit corporation incorporated under the laws of Florida. Its stated purpose is to facilitate and improve the quality and delivery of health care to those individuals living in the respective service areas of the incorporating members of the Alliance and such other

NOTE Z - RELATED PARTY TRANSACTIONS, CONTINUED

organizations who may from time to time become members by planning, organizing, developing, and operating a health services network, thereby allowing the members to be better able to serve their patient populations. Membership in the Alliance is composed of the incorporating members and such other not-for-profit community health organizations, organized under Section 330 of the Public Health Service Act. A member of HCN management is a member of the Alliance board of directors. The assets, liabilities, and net assets and results of operations of Alliance are not required to be included and are not included in these consolidated financial statements. Alliance is considered a separate third party entity.

HCN is an incorporating member of Alliance and functions as a leasing service for Alliance's personnel. For the years ended March 31, 2014 and 2013, HCN billed Alliance $2,897,565 and $2,958,555, respectively, for salaries and fringe benefits it provides Alliance. As of March 31, 2014 and 2013, $442,571 and $427,207, respectively, was due from Alliance and was included in other receivables.

During the years ended March 31, 2014 and 2013, HCN paid Alliance dues totaling $8,500 and $8,950, respectively. HCN paid Alliance for information technology and other services totaled $737,960 and $593,210, respectively, for the years ended March 31, 2014 and 2013. As of March 31, 2014 and 2013, $112,954 and $42,281, respectively, was due to Alliance and was included in accounts payable.

Medical claims payments

IHP uses its majority member (HCN) for certain healthcare services. For the years ended March 31, 2014 and 2013, the aggregate amount of medical claims and capitation paid to HCN by IHP was $ 2,040,746 and $2,557,271, respectively.

Management services agreement

IHP entered into a management services agreement with HCN on August 1, 2011. Under the management services agreement, HCN provides IHP services, which include network development and assisting with area delivery sponsors. The total management fee paid to HCN by IHP for the years ended March 31, 2014 and 2013 was $1,523,385 and $500,434 respectively, and is recorded as a component of management fee expense.

SUPPLEMENTARY INFORMATION

COLLIER HEALTH SERVICES, INC. AND AFFILIATES
CONSOLIDATED SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended March 31, 2014

Federal or State Agency & Office/Pass Through Grantor/Program Title	CFDA/CSFA		Pass-Through or Grant Contract Number
U.S. Department of Health and Human Services			
MAJOR (Type A)			
Health Resources and Services Administration (HRSA)			
Consolidated Health Centers Grant	93.224	*	H80CS00735-12-13
Affordable Care Act (ACA) Grants for New & Expanded Services Under the Health Center Program	93.527	*	H80CS00735-12-13
MAJOR (Type B)			
Health Resources and Services Administration (HRSA)			
Outpatient Early Intervention Services - HIV - Ryan White	93.918		2H76HA00086-22-00
Outpatient Early Intervention Services - HIV - Ryan White	93.918		6H76HA00086-23-03
TOTAL FEDERAL AWARDS			

(1) included receivable of $90,001

* considered Community Health Center Cluster

Program or Award Amount	Revenue		Expenditures
$ 2,845,619	$ 2,845,619		$ 2,845,619
4,001,317	3,765,694	(1)	3,765,694
6,846,936	6,611,313		6,611,313
534,326	150,662		150,662
423,008	405,866		405,866
957,334	556,528		556,528
$ 7,804,270	$ 7,167,841		$ 7,167,841

NOTE A - BASIS OF PRESENTATION

The Consolidated Schedule of Expenditures of Federal Awards has been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America and is in accordance with the provisions of the OMB Circular A-133, "Audits of States, Local Governments and Non-Profit Organizations".

Expenditures reported on the Consolidated Schedule of Expenditures of Federal Awards include cash disbursements, whether capitalized or expensed, during the fiscal year as well as grant related amounts recorded as payable at year end. Revenues reported on the Consolidated Schedule of Expenditures of Federal Awards include cash receipts, whether recognized or deferred, as well as grant receivables recorded at year end.

NOTE B - INDIRECT COSTS

The Organization did not routinely allocate costs to Federal Awards programs. Costs charged to such programs were direct costs unless specifically incurred for the program and allowed and indicated as such.

COLLIER HEALTH SERVICES, INC. AND AFFILIATES
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
March 31, 2014

	Collier Health Services, Inc.	CHS Healthcare Foundation	Integral Health Plan, Inc.	Eliminations	Total
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	$ 1,671,306	$ 247,554	$ 8,472,863	$ -	$ 10,391,723
Certificates of deposit	845,088	-	-	-	845,088
Statutory deposits	-	-	3,189,685	-	3,189,685
Investments	626,054	-	-	-	626,054
Patient receivables, net	4,654,369	-	-	-	4,654,369
Grants receivable	107,956	-	-	-	107,956
Other receivables	1,021,682	-	1,366,228	(17,122)	2,370,788
Pledged investments - IPDA	-	-	1,991,479	-	1,991,479
Inventory	182,803	-	-	-	182,803
Prepaid expenses	98,114	-	-	-	98,114
TOTAL CURRENT ASSETS	9,207,372	247,554	15,020,255	(17,122)	24,458,059
LONG TERM INVESTMENTS	-	-	3,054,910	-	3,054,910
DEFERRED CONTRACT ACQUISITION CHARGES	-	-	1,256,265	-	1,256,265
PROPERTY AND EQUIPMENT, NET	9,941,231	4,641	855,071	-	10,800,943
OTHER ASSETS	643,404	-	-	-	643,404
TOTAL ASSETS	$ 19,792,007	$ 252,195	$ 20,186,501	$ (17,122)	$ 40,213,581
LIABILITIES AND NET ASSETS					
CURRENT LIABILITIES					
Accounts payable	$ 1,614,909	$ 17,122	$ 1,934,559	$ (17,122)	$ 3,549,468
Accrued liabilities	875,352	-	-	-	875,352
Medical claims payable	-	-	7,531,008	-	7,531,008
Pension plan payable	330,535	-	-	-	330,535
Unearned revenue	-	-	87,849	-	87,849
OPEB liability	700,259	-	-	-	700,259
Current portion of note and mortgage payable	90,903	-	-	-	90,903
Current portion of capital lease payable	151,484	-	-	-	151,484
TOTAL CURRENT LIABILITIES	3,763,442	17,122	9,553,416	(17,122)	13,316,858
ACCRUED COMPENSATED ABSENCES	957,088	-	-	-	957,088
NOTE AND MORTGAGE PAYABLE, NET OF CURRENT PORTION	1,909,097	-	4,138,045	-	6,047,142
CAPITAL LEASE PAYABLE, NET OF CURRENT PORTION	2,014,963	-	-	-	2,014,963
COMMITMENTS AND CONTINGENCIES	-	-	-	-	-
TOTAL LIABILITIES	8,644,590	17,122	13,691,461	(17,122)	22,336,051
NET ASSETS					
Unrestricted	8,219,471	-	6,495,040	-	14,714,511
Unrestricted, Board designated	1,826,016	-	-	-	1,826,016
TOTAL UNRESTRICTED NET ASSETS	10,045,487	-	6,495,040	-	16,540,527
TEMPORARILY RESTRICTED	1,101,930	85,073	-	-	1,187,003
PERMANENTLY RESTRICTED	-	150,000	-	-	150,000
TOTAL NET ASSETS	11,147,417	235,073	6,495,040	-	17,877,530
TOTAL LIABILITIES AND NET ASSETS	$ 19,792,007	$ 252,195	$ 20,186,501	$ (17,122)	$ 40,213,581

COLLIER HEALTH SERVICES, INC. AND AFFILIATES
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
March 31, 2013

	Collier Health Services, Inc.	CHS Healthcare Foundation	Integral Health Plan, Inc.	Eliminations	Total
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	$ 3,847,467	$ 367,719	$ 5,670,902	$ -	$ 9,886,088
Certificates of deposit	5,450,439	-	-	-	5,450,439
Statutory deposits	-	-	4,138,045	-	4,138,045
Investments	628,020	-	-	-	628,020
Patient receivables, net	2,864,796	-	-	-	2,864,796
Grants receivable	25,535	-	-	-	25,535
Other receivables	1,300,486	410	16,672	(262,244)	1,055,324
Assets held in trust	131,467	-	-	-	131,467
Pledged investments - IPDA	-	-	1,626,125	-	1,626,125
Inventory	192,173	-	-	-	192,173
Prepaid expenses	175,082	-	-	-	175,082
TOTAL CURRENT ASSETS	14,615,465	368,129	11,451,744	(262,244)	26,173,094
LONG TERM INVESTMENTS	-	-	2,998,596	-	2,998,596
PROPERTY AND EQUIPMENT, NET	7,201,295	575	-	-	7,201,870
OTHER ASSETS	642,449	-	-	-	642,449
TOTAL ASSETS	$ 22,459,209	$ 368,704	$ 14,450,340	$ (262,244)	$ 37,016,009
LIABILITIES AND NET ASSETS					
CURRENT LIABILITIES					
Accounts payable	$ 1,523,311	$ 262,243	$ 2,458,657	$ (262,244)	$ 3,981,967
Medical claims payable	-	-	6,608,590	-	6,608,590
Accrued liabilities	3,952,083	-	-	-	3,952,083
Pension plan payable	209,566	-	-	-	209,566
Assets held in trust and other	131,467	-	-	-	131,467
OPEB Liability	351,885	-	-	-	351,885
Current portion of capital lease payable	142,177	-	-	-	142,177
TOTAL CURRENT LIABILITIES	6,310,489	262,243	9,067,247	(262,244)	15,377,735
ACCRUED COMPENSATED ABSENCES	1,072,497	-	-	-	1,072,497
CAPITAL LEASE PAYABLE, NET OF CURRENT PORTION	2,166,446	-	-	-	2,166,446
NOTE PAYABLE	-	-	-	-	-
COMMITMENTS AND CONTINGENCIES	-	-	-	-	-
TOTAL LIABILITIES	9,549,432	262,243	9,067,247	(262,244)	18,616,678
NET ASSETS					
Unrestricted	6,109,477	-	5,383,093	-	11,492,570
Unrestricted, Board designated	6,429,823	-	-	-	6,429,823
TOTAL UNRESTRICTED NET ASSETS	12,539,300	-	5,383,093	-	17,922,393
TEMPORARILY RESTRICTED	370,477	106,461	-	-	476,938
TOTAL NET ASSETS	12,909,777	106,461	5,383,093	-	18,399,331
TOTAL LIABILITIES AND NET ASSETS	$ 22,459,209	$ 368,704	$ 14,450,340	$ (262,244)	$ 37,016,009

COLLIER HEALTH SERVICES, INC. AND AFFILIATES
CONSOLIDATING STATEMENT OF ACTIVITIES
Year ended March 31, 2014

	Collier Health Services, Inc.	CHS Healthcare Foundation	Integral Health Plan, Inc.	Eliminations	Total
CHANGES IN NET ASSETS					
REVENUES AND SUPPORT					
Federal grants	$ 7,167,841	$ -	$ -	$ -	$ 7,167,841
Medicaid premium revenues	-	-	95,664,053	-	95,664,053
Patient service fees, net	20,073,219	-	-	(2,346,470)	17,726,749
In-kind contributions	3,259,835	39,018	-	(39,018)	3,259,835
Other	723,624	-	-	-	723,624
Management fees	2,529,987	-	-	(1,288,147)	1,241,840
Contributions	382,726	656,512	-	(465,411)	573,827
Other grants	531,009	-	-	-	531,009
Fundraising	-	-	-	-	-
Investment income, net of fees and costs	35,918	-	59,577	-	95,495
Unrealized gain on investments	-	-	-	-	-
TOTAL REVENUE AND SUPPORT	34,704,159	695,530	95,723,630	(4,139,046)	126,984,273
EXPENSES					
Salaries	15,689,774	-	-	-	15,689,774
Payroll taxes	1,480,864	-	-	-	1,480,864
Fringe benefits	3,574,032	-	-	-	3,574,032
Contractual expense	1,497,839	-	-	-	1,497,839
In-kind	3,261,401	39,018	-	(39,018)	3,261,401
Equipment lease	210,313	-	-	-	210,313
Facility lease and related	770,784	-	-	-	770,784
Insurance	202,160	-	-	-	202,160
Legal, audit and consulting	1,600,694	-	-	-	1,600,694
Computer	1,025,938	4,864	-	-	1,030,802
Maintenance and repairs	394,102	-	-	-	394,102
Management fees	-	-	12,232,313	(3,634,617)	8,597,696
Marketing	49,067	1,129	-	-	50,196
Fundraising	13,993	-	-	-	13,993
Charitable contributions	129,626	489,931	-	(465,411)	154,146
Patient care	2,718,491	-	-	-	2,718,491
Medical services, net	-	-	81,256,650	-	81,256,650
Printing	18,978	6,161	-	-	25,139
Postage	33,808	208	-	-	34,016
Supplies	324,380	1,818	-	-	326,198
Training	115,817	6,300	-	-	122,117
Travel	210,913	8,832	-	-	219,745
Utilities	1,760,262	2,492	-	-	1,762,754
Vehicle	115,248	-	-	-	115,248
Interest and bank fees	208,031	215	-	-	208,246
Other	241,771	1,466	1,084,299	-	1,327,536
Unrealized Loss on Investments	27,198	-	-	-	27,198
Depreciation	791,035	4,484	38,421	-	833,940
TOTAL EXPENSES	36,466,519	566,918	94,611,683	(4,139,046)	127,506,074
INCREASE (DECREASE) IN NET ASSETS	(1,762,360)	128,612	1,111,947	-	(521,801)
NET ASSETS, BEGINNING OF YEAR,	12,909,777	106,461	5,383,093	-	18,399,331
NET ASSETS, END OF YEAR	$ 11,147,417	$ 235,073	$ 6,495,040	$ -	$ 17,877,530

COLLIER HEALTH SERVICES, INC. AND AFFILIATES
CONSOLIDATING STATEMENT OF ACTIVITIES (AS RESTATED)
Year ended March 31, 2013

	Collier Health Services, Inc.	CHS Healthcare Foundation	Integral Health Plan, Inc.	Eliminations	Total
CHANGES IN NET ASSETS					
REVENUES AND SUPPORT					
Federal grants	$ 6,928,365	$ -	$ -	$ -	$ 6,928,365
Medicaid premium revenues	-	-	59,973,311	-	59,973,311
Patient service fees, net	17,544,898	-	-	(2,997,036)	14,547,862
In-kind contributions	2,004,794	64,967	-	(64,967)	2,004,794
Other	819,858	-	-	-	819,858
Management fees	1,485,619	-	-	(497,047)	988,572
Contributions	408,971	536,204	-	(494,294)	450,881
Other grants	282,242	-	-	-	282,242
Fundraising	-	-	-	-	-
Investment income, net of fees and costs	27,079	-	-	-	27,079
Unrealized gain on investments	5,098	-	-	-	5,098
TOTAL REVENUE AND SUPPORT	29,506,924	601,171	59,973,311	(4,053,344)	86,028,062
EXPENSES					
Salaries	15,028,535	-	-	(15,237)	15,013,298
Payroll taxes	1,148,722	-	-	-	1,148,722
Fringe benefits	3,219,859	-	-	-	3,219,859
Contractual expense	2,296,060	-	-	-	2,296,060
In-kind	1,994,794	64,967	-	-	2,059,761
Equipment and lease	172,097	-	-	-	172,097
Facility	738,817	-	-	(49,730)	689,087
Insurance	162,753	-	-	-	162,753
Legal, audit and consulting	823,136	-	-	-	823,136
Computer	661,800	8,970	-	-	670,770
Maintenance and repairs	386,961	-	-	-	386,961
Management fees	-	-	8,142,954	(3,504,083)	4,638,871
Marketing	23,679	30	-	-	23,709
Fundraising	24,340	-	-	-	24,340
Charitable contributions	64,765	488,894	-	(484,294)	69,365
Patient care	2,308,845	-	-	-	2,308,845
Medical services, net	-	-	47,644,823	-	47,644,823
Printing	42,004	2,464	-	-	44,468
Postage	28,104	180	-	-	28,284
Supplies	319,388	3,321	-	-	322,709
Training	80,456	-	-	-	80,456
Travel	241,076	2,554	-	-	243,630
Utilities	790,160	2,402	-	-	792,562
Vehicle	121,545	-	-	-	121,545
Interest and bank fees	191,291	572	37,800	-	229,663
Other	491,793	761	338,506	-	831,060
Depreciation	786,792	209	-	-	787,001
TOTAL EXPENSES	32,147,772	575,324	56,164,083	(4,053,344)	84,833,835
INCREASE (DECREASE) IN NET ASSETS	(2,640,848)	25,847	3,809,228	-	1,194,227
NET ASSETS, BEGINNING OF YEAR, (AS RESTATED)	15,550,625	80,614	1,573,865	-	17,205,104
NET ASSETS, END OF YEAR	$ 12,909,777	$ 106,461	$ 5,383,093	$ -	$ 18,399,331

ADDITIONAL REPORTS OF INDEPENDENT AUDITOR

TUSCAN
& Company, PA
Certified Public Accountants & Consultants

Affiliations
Florida Institute of Certified Public Accountants
American Institute of Certified Public Accountants
Private Companies Practice Section
Tax Division

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Consolidated Financial Statements Performed in Accordance with Government Auditing Standards

Board of Directors
Collier Health Services, Inc.
dba Healthcare Network of Southwest Florida and Affiliates
1454 Madison Avenue West
Immokalee, FL 34142

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 of America, the consolidated financial statements of Collier Health Services, Inc. dba Healthcare Network of Southwest Florida and Affiliates, which comprise the consolidated statement of financial position as of March 31, 2014, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated Novembe 13, 2014.

Internal Control Over Financial Reporting
In planning and performing our audit of the consolidated financial statements, we considered Collier Health Services, Inc. dba Healthcare Network of Southwest Florida and Affiliates' internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of Collier Health Services, Inc. dba Healthcare Network of Southwest Florida and Affiliates’ internal control. Accordingly, we do not express an opinion on the effectiveness of Collier Health Services, Inc. dba Healthcare Network of Southwest Florida and Affiliates’ 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. We did, however, note certain other comments that we have reported to management in our Independent Auditor's Report to Management dated November 13, 2014.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Collier Health Services, Inc. dba Healthcare Network of Southwest Florida and Affiliates' consolidated 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 consolidated 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.

Tuscan & Company, P.A.

TUSCAN & COMPANY, P.A.
Fort Myers, Florida
November 13, 2014

TUSCAN
& Company, PA
Certified Public Accountants & Consultants

Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by OMB Circular A-133

Board of Directors
Collier Health Services, Inc.
dba Healthcare Network of Southwest Florida and Affiliates
1454 Madison Avenue West
Immokalee, FL 34142

Report on Compliance for Each Major Federal Program
We have audited Collier Health Services, Inc. dba Healthcare Network of Southwest Florida and Affiliates' compliance with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement that could have a direct and material effect on each of Collier Health Services, Inc. dba Healthcare Network of Southwest Florida and Affiliates' major federal programs for the year ended March 31, 2014. Collier Health Services, Inc. dba Healthcare Network of Southwest Florida and Affiliates' 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 Collier Health Services, Inc. dba Healthcare Network of Southwest Florida and Affiliates' 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 of America; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB

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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 Collier Health Services, Inc. dba Healthcare Network of Southwest Florida and Affiliates' 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 Collier Health Services, Inc. dba Healthcare Network of Southwest Florida and Affiliates' compliance.

Opinion on Each Major Federal Program

In our opinion, Collier Health Services, Inc. dba Healthcare Network of Southwest Florida and Affiliates 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 March 31, 2014.

Report on Internal Control Over Compliance

Management of Collier Health Services, Inc. dba Healthcare Network of Southwest Florida and Affiliates 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 Collier Health Services, Inc. dba Healthcare Network of Southwest Florida and Affiliates' 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 Collier Health Services, Inc. dba Healthcare Network of Southwest Florida and Affiliates’ 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.

Purpose of the Report

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.

Tuscan & Company, P.A.

TUSCAN & COMPANY, P.A.
Fort Myers, Florida
November 13, 2014

COLLIER HEALTH SERVICES, INC. AND AFFILIATES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - FEDERAL AWARDS
March 31, 2014

Section I – Summary of Auditor's Results

Financial Statements

Type of auditor's report issued	Unmodified			
Internal control over financial reporting:				
Control deficiency(ies) identified?		Yes	X	No
Significant deficiency(ies) identified?		Yes	X	No
Material weakness(es) identified?		Yes	X	None reported
Noncompliance material to financial statements noted?		Yes	X	No

Federal Awards

Internal control over major programs:				
Control deficiency(ies) identified?		Yes	X	No
Significant deficiency(ies) identified?		Yes	X	No
Material weakness(es) identified?		Yes	X	None reported
Type of auditors report issued on compliance for major programs	Unmodified			
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section 510(a)?		Yes	X	No

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
93.224	Consolidated Health Centers
93.527	Affordable Care Act (ACA) Grant

Dollar threshold used to distinguish between Type A and Type B programs? Threshold used was $300,000

Auditee qualified as low-risk auditee?	X	Yes		No

Listing of Subrecipients and amounts passed-through: None - There were no subgrantees

Section II- Financial Statement Findings

There were no reportable conditions, material weaknesses, or instances of noncompliance related to the financial statements.

Section III- Federal Award and State Financial Assistance Findings and Questioned Costs

There were no audit findings related to federal awards required to be reported by Circular A-133, Section 510(a).

Status of Federal Prior Year Findings

There were no prior year findings.

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American Institute of Certified Public Accountants
Private Companies Practice Section
Tax Division

INDEPENDENT AUDITOR'S REPORT TO MANAGEMENT

Board of Directors
Collier Health Services, Inc.
dba Healthcare Network of Southwest Florida and Affiliates
1454 Madison Avenue West
Immokalee, FL 34142

In planning and performing our audit of the financial statements of Collier Health Services, Inc. (the "Organization") (a not-for-profit Florida corporation) dba Healthcare Network of Southwest Florida and Affiliates, for the year ended March 31, 2014, we considered the Organization' internal controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. In connection with our audit, we are submitting the following comments and recommendations for your consideration. Although our audit was not designed to provide assurance on the internal controls, we noted certain matters involving the internal controls and its operations and are submitting for your consideration, related recommendations designed to help the Organization make improvements and achieve operational efficiencies. Our comments reflect our desire to be of continuing assistance to Collier Health Services, Inc. dba Healthcare Network of Southwest Florida and Affiliates.

PRIOR YEAR COMMENTS THAT CONTINUE TO APPLY:

2013-1 Analysis of Accounts Receivable Aging Should Be Performed

During our test work, we noted that certain accounts receivable were being recorded gross and others were being recorded net after contractual adjustment. We immediately discussed this issue with management and have been informed that this issue was resolved with the implementation of the new billing system. Therefore, it appears that issue was resolved after year-end.

We did, however, note that certain specific accounts receivable balances appear to be uncollected or unresolved for a long period of time.

We recommend that the Organization review the accounts receivable aging and resolve each account as collectible or write-off the balance.

Current Year Addendum

During our test work, we noted that specific accounts receivable balances appear to be uncollected or unresolved for a long period of time. Management explained that the software that was implemented in the previous fiscal year is unable to generate reports that isolate patients on sliding scale A, and therefore have been unable to write off these balances during the current fiscal year.

We recommend that the Organization resolve the software issue and review the accounts receivable aging and resolve each account as collectible or write-off the balance.

2013-8 Review and Approval of Accounting Transactions Should Be Increased

During the audit, we noted no specific evidence (initials or sign-off) certain transactions, reconciliations and journal entries were detail reviewed or approved. As such, we noted certain of the monthly reconciliations and detail subsidiary ledgers did not agree with the general ledger.

We recommend that as part of the monthly closing process all reconciliations be reviewed, approved and signed or initialed by the reviewer. The reviewer should initial each reconciliation. Any differences noted between the reconciliations should be timely analyzed and resolved.

We recommend development and approval of a policy where all journal entries be formally approved and catalogued along with supporting detail. Consideration should be given to having the Chief Accountant or CFO signing off on all journal entries.

Current Year Addendum

During the current year, we continued to observe the need for increased review and oversight of transaction posting, journal entry posting, preparation of schedules. and review of contracts and agreements. This resulted in several journal entries being proposed during the audit to adjust the year end trial balance provided to us.

Similar issues were noted in the internal audit reports prepared during the current fiscal year and subsequent to year end.

We recommend that the Organization increase communication between departments as well as establishing a supervision and review procedure to ensure completeness and accuracy of transaction posting and preparation of schedules.

2013-9 Contracts Should Be Executed For All Services Performed Among Related Parties
During the audit, we noted that the Organization performed services or paid for services with a related party without an approved contract. Specifically, the Organization acts as a staff leasing company for Alliance. We were informed that no formal contract existed for this service during the year under audit.

We recommend a formal contract be established for all such services. We further suggest the Organization always ensure such service is approved by legal counsel to ensure consistency with the Organization's mission and tax status as well as risk management.

Current Year Addendum
During the audit, it was noted the Organization performed services or paid for services without an approved contract. Specifically, the Organizations acts as a staff leasing company for ILS and Alliance. We were informed that no formal contract existed for this service during the year under audit.

We continue to recommend that formal contracts be established for all such services. We further suggest the Organization always ensure such service is approved by legal counsel to ensure consistency with the Organization's mission and tax status as well as risk management.

CURRENT YEAR COMMENTS:

2014-1 Compensation Should Be Reported on W-2
During the audit, we noted that certain compensation items were inadvertently excluded from the W-2 of a former employee. Subsequent to the fiscal year end, the Organization issued a corrected W-2.

We recommend that the Organization analyze all employee compensation and employee benefits and include all taxable amounts on employees W-2s.

2014-2 Reconciliation of Pharmacy Inventory
During the audit, we performed a test of the controls over pharmacy inventory system. We noted that out of the twenty-five (25) items selected for testing, only ten (10) reconciled to what was recorded on the pharmacies inventory list. Management

indicated that a physical inventory was only taken annually and was only compared to a report provided by McKesson, items that are not purchased from McKesson are physically counted at year end and added to the inventory listing. Management further mentioned that the annual inventory count is never reconciled to RX30 the pharmacy's perpetual inventory tracking system. It was further noted that items listed in RX30 were no longer available in the pharmacy.

We recommend that pharmacy reconcile actual inventory to the RX30 system, so that it reflects the actual inventory on hand. A detailed year-end inventory listing should be developed.

This report is intended solely for the information and use of finance committee, management, Federal and State awarding agencies, pass-through entities, the Auditor General for the State of Florida and other Federal and State audit agencies. This report is not intended to be, and should not be, used by anyone other than these specified parties.

Tuscan & Company, P.A.

TUSCAN & COMPANY, P.A.
Fort Myers, Florida
November 13, 2014

EXHIBIT

health|care
network of southwest florida

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Immokalee, Florida 34142
P 239.658.3000
F 239.658.3050
www.healthcareswfl.org

December 9, 2014

Tuscan & Company, PA
12621 World Plaza Lane, Building 55
Fort Myers, FL 33907

Re: Fiscal year ending 03/31/2014 audit comments

Dear Mr. Tuscan:

Please see our response to the 03/31/2014 audit comments;

2013-1 As of October 2014, the software issues have been corrected and all patients' accounts receivable balances older than 120 days have either been sent to collections or written-off as bad debt. The Revenue Cycle Director will continue to monitor the outstanding aging on a monthly basis.

2013-8 The Finance Department is implementing an electronic approval process for journal entries that will have the backup attached to the entry. The Finance department now reviews all contracts to determine the financial impact to our organization. We have implemented new schedules that are attached to the balance sheet monthly and given to the CFO for review.

2014-1 This was an error and was corrected as soon as we found it. In January of 2014 we implemented ADP, which will now be processing employee w2's.

2014-2 To improve controls in the pharmacy department, Healthcare Network of Southwest Florida (HCN) is undertaking the following initiatives:

1. The Pharmacy staff will take a random inventory weekly and reconcile it to the Rx30 software inventory report. The Pharmacy will turn in the weekly inventory count reconciled to the Rx30 software to the Finance Department.
2. The Pharmacy staff will manually check the vendor's NDC number when filling prescriptions.
3. An audit readiness assessment will be performed by an outside consulting firm in January of 2015. This engagement will provide an independent assessment of our pharmacy inventory controls, policies and procedures.
4. HCN will be evaluating the feasibility of replacing the current pharmacy dispensing software with a unified pharmacy solution.
5. A detailed year-end inventory listing will be reconciled with the Rx30 software inventory report.

These changes and improvements to pharmacy controls will allow the pharmacy to reconcile actual inventory to the Rx30 system.

Sincerely,

Sandra Steele
CFO

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