

COMMUNITY HEALTH CENTER, INC.

**CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION,
REPORTING REQUIRED UNDER
GOVERNMENT AUDITING STANDARDS
THE FEDERAL UNIFORM GUIDANCE AND
STATE OF CONNECTICUT SINGLE AUDIT ACT
AND OTHER INFORMATION**

FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

COMMUNITY HEALTH CENTER, INC.

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Community Health Center, Inc.

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Community Health Center, Inc., which comprise the consolidated statement of financial position as of June 30, 2019, and the related consolidated statements of activities and changes in net assets, and cash flows for the year 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the 2019 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Community Health Center, Inc. as of June 30, 2019, and the consolidated changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter – 2018 Financial Statements

The consolidated financial statements of Community Health Center, Inc. for the year ended June 30, 2018, were audited by other auditors who expressed an unmodified opinion on those consolidated financial statements on October 23, 2018.

Other Matter – Other Information

Our audit was conducted for the purpose of forming an opinion on the 2019 consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and the schedule of expenditures of state financial assistance, as required by the State of Connecticut Single Audit Act (C.G.S. Section 4-230 to 4-236), and the consolidating statement of financial position and consolidating statement of activities, 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 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 information is fairly stated, in all material respects, in relation to the 2019 consolidated financial statements as a whole.

Other Reporting Required by Government Auditing Standards - 2019

In accordance with *Government Auditing Standards*, we have also issued our report dated November 27, 2019, on our consideration of Community Health Center, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Community Health Center, Inc.'s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Community Health Center, Inc.'s internal control over financial reporting and compliance.

Marcum LLP

Hartford, CT
November 27, 2019

COMMUNITY HEALTH CENTER, INC.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2019 AND 2018

	2019	2018
Assets		
Current Assets		
Cash and cash equivalents	\$ 11,348,012	\$ 19,794,548
Certificates of deposit	565,067	564,897
Investments	2,991,766	2,784,355
Patient accounts receivables, less allowance for doubtful accounts of \$3,220,619 in 2019 and \$3,201,128 in 2018	6,033,651	4,624,828
Grant and other receivables	3,157,255	4,767,391
Prepaid expenses	<u>1,735,899</u>	<u>1,692,318</u>
Total Current Assets	25,831,650	34,228,337
Property and equipment, net	90,261,426	65,766,334
Restricted cash - new markets tax credit program	--	9,391,914
Notes receivables - new markets tax credit program	20,812,050	20,812,050
Other assets	<u>568,962</u>	<u>568,367</u>
Total Assets	<u>\$ 137,474,088</u>	<u>\$ 130,767,002</u>

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

COMMUNITY HEALTH CENTER, INC.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (CONTINUED)

JUNE 30, 2019 AND 2018

	2019	2018
Liabilities and Net Assets		
Current Liabilities		
Accounts payable and accrued expenses	\$ 16,294,516	\$ 14,023,622
Deferred revenue	424,560	566,280
Current portion of notes payable - new markets tax credit program	654,145	202,058
Line of credit	701,250	--
Current portion of long-term debt	<u>151,043</u>	<u>143,345</u>
Total Current Liabilities	<u>18,225,514</u>	<u>14,935,305</u>
Long-Term Liabilities		
Long-term notes payable - new markets tax credit program	53,703,092	53,364,616
Long-term debt, net of current portion	<u>4,888,502</u>	<u>4,910,603</u>
Total Long-Term Liabilities	<u>58,591,594</u>	<u>58,275,219</u>
Total Liabilities	<u>76,817,108</u>	<u>73,210,524</u>
Net Assets		
Without donor restrictions	<u>60,656,980</u>	<u>57,556,478</u>
Total Net Assets	<u>60,656,980</u>	<u>57,556,478</u>
Total Liabilities and Net Assets	<u>\$ 137,474,088</u>	<u>\$ 130,767,002</u>

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

COMMUNITY HEALTH CENTER, INC.

CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

	2019	2018
Support and Revenue		
Net patient service revenue before provision for doubtful accounts	\$ 86,191,542	\$ 80,498,236
Provision for doubtful accounts	<u>1,157,897</u>	<u>1,627,485</u>
Net patient service revenue	85,033,645	78,870,751
Grant income	15,446,580	15,074,158
State bonding	6,900,330	6,103,545
Pharmacy	8,066,274	6,631,868
Donated vaccines	3,684,777	3,850,184
Meaningful use	255,000	161,500
Consulting	1,963,599	1,515,919
Other income	2,133,159	2,940,061
Investment income	419,873	412,132
Rental income	<u>34,921</u>	<u>69,118</u>
Total Support and Revenue	<u>123,938,158</u>	<u>115,629,236</u>
Expenditures		
Program services		
Medical costs	50,587,456	48,391,658
Dental costs	9,467,083	9,661,578
Mental health costs	9,483,095	8,779,014
School based services	11,605,862	10,171,789
Community based services	<u>5,482,852</u>	<u>5,415,008</u>
	86,626,348	82,419,047
Management and general	<u>34,211,308</u>	<u>29,340,870</u>
Total Expenditures	<u>120,837,656</u>	<u>111,759,917</u>
Increase in Net Assets	3,100,502	3,869,319
Net Assets - Beginning	<u>57,556,478</u>	<u>53,687,159</u>
Net Assets - End	<u>\$ 60,656,980</u>	<u>\$ 57,556,478</u>

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

COMMUNITY HEALTH CENTER, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

	2019	2018
Cash Flows from Operating Activities		
Increase in net assets	\$ 3,100,502	\$ 3,869,319
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Provision for doubtful accounts	1,157,897	1,627,485
Depreciation and amortization	4,089,245	3,409,101
Unrealized/realized gains on securities transactions	(140,927)	(159,074)
Changes in operating assets and liabilities:		
Certificates of deposit	(170)	(169)
Patient receivables	(2,566,720)	(585,374)
Grants and other receivables	1,610,136	(1,678,892)
Prepaid expenses	(43,581)	(799,885)
Accounts payable and accrued expenses	2,270,894	2,698,481
Deferred revenue	(141,720)	18,647
	<u>9,335,556</u>	<u>8,399,639</u>
Net Cash Provided by Operating Activities		
Cash Flows from Investing Activities		
Property and equipment purchases	(28,840,201)	(26,210,716)
Issuance of notes receivable	--	(20,812,050)
Change in other assets	(695)	(28,674)
Sale of securities	189,480	205,726
	<u>(28,651,416)</u>	<u>(46,845,714)</u>
Net Cash Used in Investing Activities		

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

COMMUNITY HEALTH CENTER, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

	2019	2018
Cash Flows from Financing Activities		
Cash released from restriction for construction	\$ 9,391,914	\$ 21,228,086
Repayment of long-term debt	(139,403)	(1,969,775)
Forgiveness of long-term debt	--	(1,899,558)
Borrowings of long-term debt	988,821	5,100,000
Borrowings of line of credit	701,250	--
Repayments of notes payable - new markets tax credit program	(198,258)	(4,637,398)
Borrowings of notes payable - new markets tax credit program	125,000	22,989,410
Net Cash Provided by Financing Activities	<u>10,869,324</u>	<u>40,810,765</u>
Net (Decrease) Increase in Cash and Cash Equivalents	(8,446,536)	2,364,690
Cash and Cash Equivalents - Beginning	<u>19,794,548</u>	<u>17,429,858</u>
Cash and Cash Equivalents - End	<u>\$ 11,348,012</u>	<u>\$ 19,794,548</u>
Supplemental Disclosure of Cash Flow Information		
Proceeds from notes payable - new markets tax credit to restricted cash	<u>\$ --</u>	<u>\$ 30,620,000</u>

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

COMMUNITY HEALTH CENTER, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NATURE OF ORGANIZATION

Community Health Center, Inc. (CHCI) is a statewide organization with primary care centers in Middletown, Old Saybrook, Clinton, Meriden, New London, Groton, Stamford, Norwalk, Danbury, Enfield, New Britain, Bristol, Hartford and Waterbury as well as over 200 service delivery locations in schools, homeless and domestic violence shelters, and community settings. CHCI is focused on special populations, improving health outcomes, and building healthy communities and does this through clinical excellence in the delivery of primary care, research and innovation aimed at improving primary care, and by training the next generation of healthcare professionals.

CHCI's core services are primary medical care, dentistry/oral health and behavioral health services. As a private, nonprofit organization with a consumer-majority board of directors, comprehensive primary care services and a sliding fee schedule for uninsured patients, CHCI has earned the designation of federally qualified health center, allowing it to take advantage of such benefits as FTCA liability insurance. CHCI goes beyond the traditional model of primary care to bring care using innovative service delivery models and state of the art technology.

CHCI's primary care model is built on "planned care" which incorporates prevention and health promotion, treatment of acute illness and management of chronic disease. Its interdisciplinary teams provide primary medical, dental and behavioral health services to patients of all ages along with limited specialty services. As part of its mission to serve special populations, CHCI has organized the Center for Key Populations (CKP), which brings together expert clinical teams to train other providers in caring for individuals living with complex issues such as HIV, Hepatitis C, opioid use disorder, or homelessness, as well as LGBTQ persons, all of which call for additional resources, support and expertise. In 2019, CHCI celebrated the 40th anniversary of its New Horizons Domestic Violence 24/7 Shelter and continues its commitment to ending domestic violence through community education and advocacy. As part of its efforts to promote healthy communities and social engagement, CHCI also provides a wide array of community activities from Vinnie's Jump and Jive Dance Hall to Family Wellness Centers and farmers markets. CHCI has over 150,000 active patients, over 1,000 staff, and state of the art facilities that reflect our philosophy and model of care.

The Weitzman Institute (WI) plays the lead role both internally at CHCI and nationally in formal research, education, training, and the advancement of quality driven approaches to health care. Internally, the WI is home to multiple research grants, most prominent of which is the National Institutes of Health (NIH) funded "All of Us" initiative, under which the WI is both recruiting individuals for this national study and helping test and design the tools and protocols. The research agenda is focused on issues of concern to underserved populations and community. The WI research has led to multiple peer reviewed publications. The WI also is home to CHCI's quality improvement and population health management staff, leading the

COMMUNITY HEALTH CENTER, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

NATURE OF ORGANIZATION (CONTINUED)

Organization's performance improvement plan and providing coaching, data and support to clinical and operations staff in designing and carrying out quality improvement activities. The WI is home to CHCI's national work in education and training. This includes CHCI's postgraduate Nurse Practitioner (NP) residency program, the postgraduate clinical psychology residency, the National Cooperative Agreement on Clinical Workforce Development and the administrative fellowship, and spans both CHCI's directly hosted programs and those that it remotely hosts across the country under contract to selected organizations. The WI also continues to train providers all across the country currently in practice through its menu of "Project ECHO" clinical education and support webinars in clinical areas of high complexity. Projects begun at CHCI under the WI such as eConsults, medical assistant education, and postgraduate NP residency and fellowship training have been taken to scale and evolved into distinct organizations as non-profit subsidiaries of CHCI. In 2019, the Weitzman Institute organized "WILA", the Weitzman Institute Learning Academy, in response to the increased demand from other health centers, and both private and public entities for consultation, training, and individualized technical assistance in high complexity areas of healthcare.

With the national reach of its on-line education and training programs and its subsidiaries, and with the opening of offices in Denver, Co. and Newport Beach, CA, CHCI became a national company. Today, with consulting and technical assistance as well as eConsults being delivered in Africa and Asia, CHCI has also become an international company.

CHC Realty, Inc. (Realty) was formed with CHCI as its sole member to develop, own, furnish and lease to CHCI property and equipment.

CHC Realty II, Inc. (Realty II) was formed with CHCI as its sole member to develop, own, furnish and lease to CHCI property and equipment.

CHCI Media, Inc. (Media) was formed with CHCI as its sole member to promote public health and education.

The National Nurse Practitioner Residency and Fellowship Training Consortium (NNPRFTC) was formed, with CHCI as the sole member, to improve the availability, efficiency and quality of healthcare through the development and support of post-graduate residency and fellowship training programs for Nurse Practitioners and to function as an accrediting agency with the purpose of accrediting post-graduate residency and fellowship training programs.

The Community eConsult Network (CECN) was formed, with CHCI as the sole member, to improve the efficiency and quality of healthcare provided to under-served and rural

COMMUNITY HEALTH CENTER, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

NATURE OF ORGANIZATION (CONTINUED)

populations by providing a platform to primary care providers of under-served and rural populations for communicating timely and directly with high quality specialty care providers on behalf of under-served individuals.

The National Institute for Medical Assistant Advancement (NIMAA) was formed, with CHCI as its sole member, to provide a national, accredited program to graduate medical assistants capable of working as effective members of a medical team in Federally Qualified Health Centers (FQHC's) and other high-performing primary care organizations.

Community Health Center, Inc., CHC Realty, Inc., CHC Realty II, Inc., CHCI Media, Inc., NNPRFTC, CECN and NIMAA are collectively referred to as the Organization.

BASIS OF PRESENTATION

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). CHCI utilizes the accrual basis of accounting under which revenues are recognized when earned and expenses when the related liability for goods and services is incurred, regardless of the timing of the related cash flows. The consolidated financial statements include the financial statements of Community Health Center, Inc. and its affiliated entities, CHC Realty, Inc., CHC Realty II, Inc., CHCI Media, Inc., NNPRFTC, CECN and NIMAA. All intercompany transactions have been eliminated in consolidation.

NEW ACCOUNTING PRONOUNCEMENT

In August 2016, the FASB issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classifications, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information presented about expenses and investment return. The Organization has adjusted the presentation of these financial statements accordingly. The ASU has been applied retrospectively to all periods presented. The major changes of the ASU affecting the Organization include (a) requiring the change in name of unrestricted net assets to “net assets without donor restrictions”, (b) requiring the disclosure of qualitative and quantitative information regarding the liquidity and availability of resources, (c) presentation of expenses by both their natural and functional classifications and (d) presentation of investment income net of investment expenses.

COMMUNITY HEALTH CENTER, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

INCOME TAXES

The Organization has received exemption from federal income tax under Section 501(c)(3) of the Internal Revenue Code. The Organization has also been classified as an entity that is not a private foundation within the meaning of Section 509(a) and qualifies for deductible contributions as provided in Section 170(b)(1)(a)(vi).

CHCI accounts for uncertain tax provisions under FASB ASC 740, *Income Taxes*, which provides a framework for how entities should recognize, measure, present and disclose uncertain tax positions in their financial statements. CHCI may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. Management has reviewed the Organization's reporting and believe they have not taken tax positions that are more likely than not to be determined to be incorrect by the Internal Revenue Service and therefore, no adjustments or disclosures are required. The Organization is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods pending or in progress.

USE OF ESTIMATES

The preparation of the Organization's financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

ALLOWANCE FOR DOUBTFUL ACCOUNTS

CHCI includes receivables for patient accounts deemed collectable based on the aging category. The allowance for doubtful accounts is calculated on the number of days outstanding based on the estimated collectability from the parties responsible for payment.

CASH AND CASH EQUIVALENTS

For the purpose of the consolidated statements of cash flows, the Organization considers all highly liquid investments available for current use, with an initial maturity of three months or less when purchased, to be cash equivalents. The Federal Deposit Insurance Corporation (FDIC) insures cash balances up to \$250,000 per depositor, per bank. It is CHCI's policy to monitor the financial strength of the banks that hold its deposits on an ongoing basis. During the normal course of business, CHCI maintains cash balances in excess of the FDIC insurance limit. As of June 30, 2019, CHCI had approximately \$9,000,000 of funds in excess of the FDIC insurance limit. CHCI has suffered no losses in connection with its banking activities.

COMMUNITY HEALTH CENTER, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

INVESTMENT VALUATION AND INCOME RECOGNITION

Investments are reported at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Purchases and sales of securities are recorded on the trade date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date.

Any unrealized gains or losses on investments are included in investment income on the statements of activities and changes in net assets.

PROPERTY AND EQUIPMENT

The Organization follows the practice of capitalizing all property and equipment with a cost exceeding \$2,500. Depreciation is computed using the straight-line method over the estimated useful lives of the assets with a range in lives from 3 to 40 years. There are no planned major maintenance activities.

If a grant is terminated, assets purchased with grant funds must be returned to the funding agency, if requested.

The Organization reviews long-lived assets for impairment using an undiscounted cash flow method whenever events or circumstances indicate the carrying value of an asset may not be recoverable. There were no impairment losses related to long-lived assets as of June 30, 2019 and 2018.

ADVERTISING COSTS

During the years ended June 30, 2019 and 2018, CHCI incurred \$129,609 and \$51,068 in advertising costs, respectively. Advertising costs are expensed as incurred.

COMMUNITY HEALTH CENTER, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

NET ASSETS

An entity's net assets are classified as without donor restrictions or with donor restrictions to properly disclose the nature and amount of significant resources that have been restricted in accordance with specified objectives. Accordingly, net assets are reported in two net asset groups as follows:

Net Assets With Donor Restrictions – represent amounts whose use has been limited by donors to a specific period or purpose or represent amounts that are subject to donor gift instruments requiring that the principal be invested in perpetuity and that only the income be used.

Net Assets Without Donor Restrictions – represent amounts not restricted for identified purposes by donors or grantors. These funds are available to be used for the general purposes.

CHCI had no net assets with donor restrictions as of June 30, 2019 or 2018.

REVENUE

Revenue is recorded on the accrual basis of accounting. Reference is made to Note 3.

CONTRIBUTIONS

Contributions are recognized when the donor makes a promise that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions expire in the fiscal year in which the contributions are received.

INTEREST RATE SWAP AGREEMENTS

The Organization utilizes interest rate swap agreements to reduce risk associated with changes in interest rates on certain debt instruments. The Organization is exposed to credit loss in the event of nonperformance by the counter parties to its interest rate swap agreements. The Organization is also exposed to the risk that the swap receipts may not offset its variable rate debt service. To the extent these variable rate payments do not equal variable interest payments on the debt, there will be a net loss or net benefit to the Organization.

COMMUNITY HEALTH CENTER, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

NEW ACCOUNTING STANDARDS NOT YET ADOPTED

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606). The most significant impact of adopting the new standard will be in the presentation of the Organization's consolidated statements of activities and changes in net assets, where the provision for doubtful accounts will no longer be a separate line item and net patient service revenue will be presented net of estimated implicit price concessions (formerly referred to as bad debt allowance). The standard requires disclosure of the aggregate amount of transaction price allocated to performance obligations that are partially satisfied at the end of the reporting period and adjustments of expected consideration from patients and third party payors for the effects of any financing components if significant. The adoption of the new standard is not expected to have a significant impact on the Organization's recognition of net revenues for any periods prior to adoption and will eliminate the presentation of the allowance for doubtful accounts on the consolidated statements of financial position. The guidance in ASU 2014-09 will be adopted in the Organization's consolidated financial statements for the year ending June 30, 2020.

In June 2018, the FASB issued ASU No. 2018-08, *Not-for-Profit Entities: Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. ASU 2018-08 clarifies the scope and accounting guidance around contributions of cash and other assets received by not-for-profit organizations. ASU 2018-08 improves current guidance about whether a transfer of assets, or the reduction, settlement, or cancellation of liabilities, is a contribution or an exchange transaction. It provides criteria for determining whether the resource provider is receiving commensurate value in return for the resources transferred which, depending on the outcome, determines whether the organization follows contribution guidance or exchange transaction guidance in the revenue recognition and other applicable standards.

ASU 2018-08 also provides a more robust framework for determining whether a contribution is conditional or unconditional, and for distinguishing a donor-imposed condition from a donor-imposed restriction, which will affect the timing of contribution revenue and expense recognition. The guidance in the ASU 2018-08 will be effective for fiscal year 2020.

In February 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842), and a related ASU 2018-11, *Leases: Targeted Improvements*, in July 2018. The guidance in these ASUs requires the rights and obligations arising from all lease contracts to be recognized as assets and liabilities on the statement of financial position and provides an option to apply the guidance on the Organization's effective date instead of the earliest comparative period presented in the Organization's financial statements. The primary effect of adopting this guidance will be the

COMMUNITY HEALTH CENTER, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

NEW ACCOUNTING STANDARDS NOT YET ADOPTED (CONTINUED)

recognition of right-of-use assets and obligations for current operating leases. The Organization will need to determine certain key assumptions that will be utilized to transition to this guidance on the effective date, including discount rates. This standard will be effective for the Organization for fiscal years beginning after December 15, 2020. The Organization is currently evaluating the impact this standard will have on its consolidated financial statements.

FUNCTIONAL EXPENSES

Expenses are charged to program expenses such as medical, dental, mental health, school based, community based, and management and general expenses such as facility, fundraising and administrative based on a combination of specific identification and allocation by management.

RECLASSIFICATIONS

Certain amounts in the 2018 financial statements have been reclassified to conform with the 2019 presentation.

SUBSEQUENT EVENTS

The Organization has evaluated events and transactions for potential recognition or disclosure through November 27, 2019, which is the date the financial statements were available to be issued. No events have been identified requiring recognition or disclosure in the financial statements.

NOTE 2 – CONCENTRATIONS

A substantial portion of the Organization's revenue is derived from grant contracts. Because the grants are evidenced by signed contracts with government and other agencies, management believes there is nominal credit risk associated with any outstanding grants receivable.

COMMUNITY HEALTH CENTER, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

NOTE 3 – REVENUES

NET PATIENT SERVICE REVENUE

CHCI has agreements with third-party payors that provide for payments to CHCI at amounts different from its established rates. Payment arrangements under these agreements include prospectively determined rates.

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered, including retroactive adjustments under reimbursement agreements with third-party payors, which are subject to audit by administrating agencies. These adjustments are accrued on an estimated basis and are adjusted in future periods as final settlements are determined.

Net patient service revenues consisted of the following for the years ended June 30:

	2019	2018
Gross patient service revenue	\$ 107,897,418	\$ 102,533,961
Contractual and other adjustments	<u>(21,705,876)</u>	<u>(22,035,725)</u>
Net patient service revenue before provision for doubtful accounts	86,191,542	80,498,236
Provision for doubtful accounts	<u>(1,157,897)</u>	<u>(1,627,485)</u>
Net patient service revenue after provision for doubtful accounts	<u>\$ 85,033,645</u>	<u>\$ 78,870,751</u>

COMMUNITY HEALTH CENTER, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

NOTE 3 – REVENUES (CONTINUED)

NET PATIENT SERVICE REVENUE (CONTINUED)

The following summarizes third-party payor arrangements:

Medicaid: Services rendered to clients covered under the Medicaid program are reimbursed under a per visit rate.

Medicare: Services rendered to the Medicare program beneficiaries are paid at prospective rates per visit. CHCI is reimbursed its costs for services at a tentative rate per visit with final settlement determined after submission of the annual cost report. Audits thereof by the Medicare fiscal intermediary are performed. Medicare has settled cost report years through fiscal year 2018.

CHARITY CARE

CHCI's charity care policy is to provide care to all patients regardless of their ability to pay. CHCI provides care to those patients who meet certain criteria under its sliding fee discount policy without charge or at amounts less than established rates. Charity care services are computed using a sliding fee scale based on patient income and family size. The amount of charity care provided was \$10,138,535 and \$8,293,392 for the years ended June 30, 2019 and 2018, respectively. The amount of subsidy received for charity care services totaled \$8,618,521 and \$7,531,260 for the years ended June 30, 2019 and 2018, respectively.

CHCI has agreements that provide payments as described below.

GRANTS AND CONTRACTS

Revenue from cost reimbursement grants and contracts is recognized to the extent of costs incurred. Revenue from performance-based grants and contracts is recognized to the extent of performance achieved. Grant and contract receipts in excess of allowable expenditures are recorded on the consolidated statements of financial position as deferred revenue if the grant extends beyond the Organization's fiscal year and as due to grantor if the grant was completed within the fiscal year.

COMMUNITY HEALTH CENTER, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

NOTE 3 – REVENUES (CONTINUED)

REVENUE FROM CONTRACTING AGENCIES

CHCI participates as a provider of health care services to several Managed Care Organizations (MCO's). Reimbursement for covered services is based on tentative payment rates. Provisions for estimated reimbursement adjustments are reported in the financial statements in the period that the services are rendered.

Revenue from the Medicare and Medicaid programs accounted for approximately 90% of the Organization's net patient service revenue for the fiscal years ended June 30, 2019 and 2018. The Medicaid rates are based upon a base year rate rolled forward by inflation and other factors. Medicare reimbursement rates are set based upon submitted cost reports and final Medicare reimbursement is subject to a yearend settlement.

340B PHARMACY

The Organization participates in Section 340B of the Public Health Service Act (PHS Act), *Limitation on Prices of Drugs Purchased by Covered Entities*. Participation in this program allows the Organization to purchase pharmaceuticals at a discounted rate for prescriptions to eligible patients. The Organization has outsourced the administration of this program to commercial pharmacies. The Organization records revenue based on the price of the pharmaceuticals dispensed. The cost of 340B drugs is \$2,857,848 and \$2,762,846 for the years ended June 30, 2019 and 2018, respectively, and is included in program service expenses on the consolidated statements of activities and changes in net assets.

DONATED GOODS AND SERVICES

Donated goods and services are recorded at fair value at the time of the donation.

IN-KIND CONTRIBUTIONS

In-kind contributions consist primarily of vaccines, medical supplies and equipment that are recorded at the fair value of the supplies provided along with a corresponding charge to direct operating expenses in the accompanying consolidated statements of activities and changes in net assets.

COMMUNITY HEALTH CENTER, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

NOTE 3 – REVENUES (CONTINUED)

ELECTRONIC HEALTH RECORDS INCENTIVE PROGRAM

The Electronic Health Records Incentive Program, enacted as part of the *American Recovery and Reinvestment Act of 2009*, provides for one-time incentive payments under both Medicare and Medicaid programs to eligible organizations that demonstrate meaningful use of certified electronic health records technology (EHR). Payments under the Medicare program are generally made for up to four years based on a statutory formula. Payments under the Medicaid program are generally made for up to six years based upon a statutory formula, as determined by the State, which is approved by the Centers for Medicare and Medicaid Services. Payments under both programs are contingent on the Health Center continuing to meet escalating meaningful use criteria and any other specific requirements that are applicable for the reporting period. The final amount for any payment year is determined based upon an audit by the State, fiscal intermediary or Medicare Administrative Contractor. Events could occur that would cause the final amounts to differ materially from the initial payments under the program.

NOTE 4 – RESTRICTED CASH

During 2018, the Organization received \$30,620,000 of proceeds from a new markets tax credit transaction that was restricted for use for the construction of new facilities of an approximately 27,500 square foot primary care pediatric clinic, construction and development of an approximately 32,000 square foot data center and tele-health facilities center, and the rehabilitation of an approximately 22,500 square foot primary care and dental clinic. The facilities are located at 76 New Britain Avenue, Hartford, Connecticut, 19 Grand Street, Middletown, Connecticut, and 22 Fifth Street, Stamford, Connecticut. An outside party acts as custodian for these funds. As of June 30, 2018, \$21,228,086 was utilized for construction costs and \$9,391,914 was restricted for construction. As of June 30, 2019, all amounts were utilized for construction. See Note 12 for further information on this transaction.

COMMUNITY HEALTH CENTER, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

NOTE 5 – PATIENT RECEIVABLES, NET

The Organization grants credit without collateral to its patients, most of whom are local residents and are covered under third-party payor agreements. The mix of receivables, net from patients and third-party payors as of June 30, 2019 and 2018 are as follows:

	2019	2018
Medicaid	\$ 3,266,311	\$ 2,777,316
Medicare	275,637	282,558
Third-party payors	1,263,398	1,063,371
Patients	<u>4,448,924</u>	<u>3,702,711</u>
	9,254,270	7,825,956
Less allowance for doubtful accounts	<u>3,220,619</u>	<u>3,201,128</u>
	<u>\$ 6,033,651</u>	<u>\$ 4,624,828</u>

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Additionally, noncompliance with such laws and regulations could result in fines, penalties, and/or exclusion from the Medicare and Medicaid programs. The Organization believes that it is in compliance with all applicable laws and regulations, and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing that could have a material effect on the accompanying consolidated financial statements.

NOTE 6 – REGULATORY AND LEGISLATIVE MATTERS

CHCI is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services and Medicare and Medicaid fraud and abuse. Government activity continues with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers.

COMMUNITY HEALTH CENTER, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

NOTE 6 – REGULATORY AND LEGISLATIVE MATTERS (CONTINUED)

Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that CHCI is in compliance with fraud and abuse as well as other applicable government laws and regulations. While no known regulatory inquiries are pending, compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time. CHCI may, from time to time, be subject to legal proceedings, claims and liabilities, such as employment-related claims and slip and fall cases, which arise in the ordinary course of operations. Management believes the amount of liability with respect to any such legal proceedings, claims, and liabilities would not have a significant adverse impact on CHCI's financial position, results of operations or cash flows.

CHCI has received grants for specific purposes that are subject to review, audit and adjustment by the grantor agencies. Such audits could lead to requests for reimbursement to such agencies for any expenditures or claims disallowed under the terms of the agreements. Management believes no such disallowances will be made that would have a significant adverse impact on the Organization.

NOTE 7 – NOTES RECEIVABLES – NEW MARKETS TAX CREDIT

On August 30, 2017, CHCI entered into two promissory notes with COCRF Investor 83, LLC (COCRF) as lender of \$17,810,050 which matures on December 1, 2024 and \$3,002,000 which matures on April 1, 2036. Both notes bear interest at 1% per annum. COCRF pays interest in arrears on these notes on a quarterly basis. COCRF is 100% owned by Capital One, National Association (Capital One). Interest income recognized on the notes receivables totaled \$205,223 and \$183,459 for the years ended June 30, 2019 and 2018, respectively.

NOTE 8 – FAIR VALUE MEASUREMENT

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy are described as follows:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access;

COMMUNITY HEALTH CENTER, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

NOTE 8 – FAIR VALUE MEASUREMENT (CONTINUED)

Level 2 - Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

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

Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for assets measured at fair value.

Marketable equity securities and mutual funds: Common stocks and mutual funds are valued at the closing price reported in the active market in which the individual securities are traded.

Corporate bonds: Certain corporate bonds are valued at the closing price reported in the active market in which the individual securities are traded. Other corporate bonds are valued based on yields currently available on comparable securities of issuers with similar durations and credit ratings.

Money market funds: Money market funds are valued at the quoted net asset value of shares held. These are included in cash and cash equivalents.

Other assets: The investments held by others are considered to be Level 2. The nonlisted securities and limited partnership assets are considered to be Level 3.

There have been no changes in the methodologies used at June 30, 2019 or 2018.

COMMUNITY HEALTH CENTER, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

NOTE 8 – FAIR VALUE MEASUREMENT (CONTINUED)

The following table sets forth by level, within the fair value hierarchy, the Organization’s investments and other assets at fair value at June 30, 2019 and 2018.

	Assets at Fair Value as of June 30, 2019			
	Level 1	Level 2	Level 3	Total
Mutual Funds:				
U.S. Stocks	\$ 1,646,145	\$ --	\$ --	\$ 1,646,145
International Stocks	392,641	--	--	392,641
U.S. Bonds	952,980	--	--	952,980
Other Assets	--	326,426	132,458	458,884
Total assets at fair value	\$ 2,991,766	\$ 326,426	\$ 132,458	\$ 3,450,650
	Assets at Fair Value as of June 30, 2018			
	Level 1	Level 2	Level 3	Total
Mutual Funds:				
U.S. Stocks	\$ 1,510,338	\$ --	\$ --	\$ 1,510,338
International Stocks	390,419	--	--	390,419
U.S. Bonds	883,598	--	--	883,598
Other Assets	--	320,055	132,458	452,513
Total assets at fair value	\$ 2,784,355	\$ 320,055	\$ 132,458	\$ 3,236,868

There were no transfers of investments between levels during the years ended June 30, 2019 and 2018.

Reference is made to Note 11 for additional details regarding other assets, including certain other assets that are not subject to fair value leveling.

COMMUNITY HEALTH CENTER, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

NOTE 9 – INVESTMENTS

All investments are recorded at fair value.

Investment return reported in the consolidated statements of activities and changes in net assets was comprised of the following for the years ended June 30, 2019 and 2018:

	2019	2018
Interest and dividends	\$ 285,809	\$ 261,215
Net gains on investments reported at fair value	140,927	161,545
Investment expenses	<u>(6,863)</u>	<u>(10,628)</u>
	<u>\$ 419,873</u>	<u>\$ 412,132</u>

NOTE 10 – PROPERTY AND EQUIPMENT

Components of property and equipment as of June 30 are as follows:

	2019	2018
Land and buildings	\$ 87,951,842	\$ 53,780,198
Leasehold improvements	7,029,176	5,226,192
Furniture and equipment	22,430,486	19,288,263
Capitalized interest and other costs	3,566,506	2,277,220
Construction in progress	<u>9,496,986</u>	<u>21,330,286</u>
	130,474,996	101,902,159
Less accumulated depreciation and amortization	<u>(40,213,570)</u>	<u>(36,135,825)</u>
	<u>\$ 90,261,426</u>	<u>\$ 65,766,334</u>

The consolidated financial statements reflect depreciation and amortization expense for the years ended June 30, 2019 and 2018 of \$4,089,245 and \$3,409,101, respectively. Interest costs of \$591,994 and \$515,735 were capitalized during the years ended June 30, 2019 and 2018, respectively.

COMMUNITY HEALTH CENTER, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

NOTE 11 – OTHER ASSETS

In 2003, CHCI entered into an agreement with the Middlesex Community Foundation to invest certain of CHCI's funds. For 2019 and 2018, this investment is included with other assets as "investments held by others."

Other assets and their carrying values are summarized below:

	2019	2018
Investments held by others	\$ 326,426	\$ 320,055
Nonlisted securities	132,458	132,458
Security deposits	110,078	115,854
	<u>\$ 568,962</u>	<u>\$ 568,367</u>

NOTE 12 – DEBT OBLIGATIONS

NOTES PAYABLE – NEW MARKETS TAX CREDIT

On August 30, 2017, CHCI received \$53,609,413 in net proceeds from financing agreements related to acquisition, construction and rehabilitation of an approximately 27,500 square foot primary care pediatric clinic at 76 New Britain Avenue, Hartford Connecticut, and approximately 32,000 square foot Knowledge and Technology Center at 19 Grand Street, Middletown, Connecticut and an approximately 22,500 square foot primary care, behavioral health and dental clinic at 22 Fifth Street, Stamford Connecticut (collectively referred to as "the Project"). This financing arrangement was structured with a third party financial institution (the NMTC Investor) associated with Capital One, N.A., an investment fund, and four community development entities (the CDE's). This transaction was designed to qualify under the federal New Market Tax Credit (NMTC) program, pursuant to Section 45D of the Internal Revenue Code of 1986, as amended. Through this transaction, the Company has secured low interest financing and the potential for future debt forgiveness related to the Project. The transaction was structured with a combination of 30-year loans totaling \$30,620,000 from the sub-CDE entities (NMTC loans) and \$22,989,413 in financing obtained by CHCI through several promissory notes with Capital One, Capital Impact and Primary Care Development Corporation (PCDC). Realty II is a qualified active low-income community business (QALICB), as that term is defined in Section 45D(g). The NMTC loans are interest only for the first 7 years and are not eligible to be repaid during this period. COCRF is the investment fund entity of this transaction. In accordance with COCRF's Operating Agreement,

COMMUNITY HEALTH CENTER, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

NOTE 12 – DEBT OBLIGATIONS (CONTINUED)

NOTES PAYABLE – NEW MARKETS TAX CREDIT (CONTINUED)

NMTC funds were allocated to sub-CDE entities for the purpose of making loans to CHCI. The sub-CDE's of this transaction are PCDC Health Opportunities Fund XVII, LLC, Impact CDE 57, LLC, BCC NMTC CDE XXVIII, LLC, and COCRF SUBCDE 57, LLC. COCRF is the sole or 99.99% member of these sub- CDE's. Upon closing of the NMTC transaction, CHCI provided an aggregate of approximately \$20,812,050, which was borrowed from Capital One, N.A., to the investment fund, in the form of a loan receivable, a portion (\$17,810,050) with a term of 7 years and a portion (\$3,002,000) with a term of 20 years, both bearing an interest rate of 1.0% per annum. This \$20,812,050 in proceeds plus \$10,687,950 of net capital from the NMTC Investor were contributed to and used by the CDE's to make loans in the aggregate of \$30,620,000 million to a subsidiary of the Company, CHC Realty II, Inc. These loans bear interest at various fixed and variable rates (covered by an interest rate swap) ranging from 1.32% to 6.00%. Realty II used the loan proceeds to partially fund the Project costs of approximately \$49,000,000. The capital assets of the Project will serve as collateral to the financing arrangement. This transaction also includes a put feature whereby, at the end of a 7-year compliance period, the Organization may be obligated or entitled to repurchase the NMTC Investor's interest in the investment fund. The value attributable to the put price is nominal. Consequently, if exercised, the put could result in the forgiveness of the NMTC Investor's interest in the investment fund.

The NMTC Investor is subject to 100% recapture of the new markets tax credit it receives for a period of 7 years as provided in the Internal Revenue Code and applicable U.S. Treasury regulations. The Company is required to be in compliance with various regulations and contractual provisions that apply to the new markets tax credit arrangement. Noncompliance with applicable requirements could result in the NMTC Investor's projected tax benefits not being realized and, therefore, require the Company to indemnify the NMTC Investor for any loss or recapture of new markets tax credit related to the financing until such time as the recapture provisions have expired under the applicable statute of limitations. The Company does not anticipate any credit recapture will be required in connection with this financing arrangement.

See the schedule of new markets tax credit program debt obligations (Table 12.1) related to the NMTC financing and their respective terms at the end of these footnotes.

COMMUNITY HEALTH CENTER, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

NOTE 12 – DEBT OBLIGATIONS (CONTINUED)

LONG-TERM DEBT

See the schedule of long-term debt obligations (Table 12.2) and their respective terms at the end of these footnotes.

The terms of certain financing agreements contain, among other provisions, requirements for maintaining defined levels of working capital, net worth, loan to value, days cash on hand, long-term debt to net assets, capital expenditures and various financial ratios, including debt to equity.

Interest expense and cash paid for interest were \$1,567,743 and \$895,206 for the years ended June 30, 2019 and 2018, respectively.

DERIVATIVE INSTRUMENTS

Concurrent with the variable rate loans from Capital One, N.A., the Organization entered into three interest rate swap agreements to manage interest rate risk. These agreements involve payment of fixed rate interest payments by the Organization in exchange for the receipt of variable rate interest payments from the counterparties, based on LIBOR plus 3.25% (5.69% at June 30, 2019). At June 30, 2019, the notional amounts and the fixed interest rates of the derivative financial instruments were \$11,257,164 at 5.31%, \$4,914,545 at 5.89% and \$1,897,730 at 5.30%. At June 30, 2018, the notional amounts and the fixed interest rates of the derivative financial instruments were \$11,333,993 at 5.31%, \$5,053,948 at 5.89% and \$1,957,261 at 5.30%. The interest rate swap agreements terminate on December 1, 2024.

Upon the occurrence of certain events of default or termination events identified in the derivative contracts, either the Organization or the counterparty could terminate the contract in accordance with its terms. Termination would result in the payment of a termination amount by one party to compensate the other party for its economic losses. The cost of termination would depend, in major part, on the then current interest rate levels, and if the interest rate levels were then lower than those specified in the derivative contract. The cost of termination to the Organization could be significant and was approximately \$487,000 as of June 30, 2019. The Organization has no intention to terminate the swaps early.

COMMUNITY HEALTH CENTER, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

NOTE 13 – LINE OF CREDIT

The Organization had a \$3,000,000 revolving line of credit with Bank of America which was closed in January 2018 and simultaneously replaced with a revolving line of credit with Capital One, N.A. Borrowings under the line bear interest at LIBOR plus 2.5% (4.88% at June 30, 2019) rate and were collateralized by accounts receivable, inventory and equipment. The balances outstanding on the line of credit was \$701,250 and \$0 for June 30, 2019 and 2018, respectively. The line of credit expires on January 31, 2020.

NOTE 14 – LEASE OBLIGATIONS

LEASED FACILITIES

CHCI conducts some of its operations from leased facilities. Lease commitments include leases which expire at various dates through May 2028 as well as certain leases which are on a month-to-month basis. In this and all other leases, management expects that in the normal course of business leases will be renewed or replaced by other leases. In most of the leases, CHCI is required to pay certain annual operating costs such as maintenance and insurance expenses. Various leases contain restrictions as to the use of the properties and subletting arrangements.

At June 30, 2019, minimum rental payments due under operating leases for facilities consist of the following:

<u>Year ending June 30,</u>	
2020	\$ 905,265
2021	592,727
2022	259,314
2023	90,572
2024	53,276
Thereafter	<u>53,276</u>
	<u>\$ 1,954,430</u>

Rent expense for the years ended June 30, 2019 and 2018 was \$1,105,276 and \$1,265,471, respectively.

CHCI maintains several leases for telephone systems, copiers and fax machines. The copier and fax machine leases require minimum monthly base payments with adjustments for excess usage.

COMMUNITY HEALTH CENTER, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

NOTE 15 – CONTINGENCY

CHCI has received substantial bonding grants to renovate various facilities throughout the state. If CHCI were to discontinue usage of the property for its specified grant purpose, the grant would be repayable to the State of Connecticut, less 10% for each year which has elapsed.

Bonding grants from the Department of Public Health (DPH) and Department of Social Services (DSS) are as follows:

Year	Funder	Location	Amount
2008	DPH	New Britain	\$ 2,500,000
2008	DPH	Meriden	2,500,000
2012	DPH	Bristol	1,000,000
2012	DSS	Middletown	2,500,000
2013	DPH	New London	1,000,000
2017	DPH	Hartford	243,200
2017	DPH	Middletown	2,376,219
2017	DPH	Stamford	4,515,712
2018	DPH	Hartford	157,411
2018	DPH	Stamford	2,400,537
2018	DPH	Middletown	3,545,597
2019	DPH	Middletown	1,000,000

Additionally, CHCI received \$7,000,000 in bonding money for Main Street Middletown from U.S. Department of Health and Human Services in 2012 that is subject to rules, regulations and lien by the federal government.

NOTE 16 – DEFINED CONTRIBUTION PLANS

CHCI maintains a 403(b) Defined Contribution Plan. CHCI's Board of Directors determines, on an annual basis, the extent to which it can contribute to the plan. Pension expense for this plan was \$1,946,204 and \$1,577,414 for the years ended June 30, 2019 and 2018, respectively.

CHCI also maintains a 457(b) Nonqualified Retirement Plan. CHCI's Board of Directors determines, on an annual basis, the extent to which it can contribute to the plan. Pension expense for this plan was \$72,500 and \$74,000 for the years ended June 30, 2019 and 2018, respectively.

COMMUNITY HEALTH CENTER, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

NOTE 17 – LIQUIDITY AND AVAILABILITY OF RESOURCES

CHCI has approximately \$23.4 million of financial assets available within one year of the statement of financial position date to meet cash needs for general expenditures consisting of cash and certificates of deposits of approximately \$11.0 million, investments of approximately \$3.2 million, accounts receivable of approximately \$6.0 million, and grants and other receivables of approximately \$3.2 million. Other than the grants receivable, none of these financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the statement of financial position date. CHCI has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. As more fully described in Note 13, CHCI also has a line of credit in the amount of \$3 million (\$2,298,750 available at June 30, 2019), which it uses to draw upon to further manage liquidity needs.

NOTE 18 – LEGAL CONTINGENCIES

CHCI is subject to legal proceedings, claims and litigation. While the outcome of these matters is currently not determinable, management does not expect that the ultimate costs to resolve these matters will have a material adverse effect on CHCI's consolidated financial position, results of operations or cash flows.

As a federally qualified health center, CHCI maintains malpractice insurance under the Federal Tort Claims Act (FTCA). This coverage is applicable to CHCI and its officers, board members, employees and contractors who are physicians, other licensees or certified health care practitioners. The FTCA coverage is on a claims-made basis without a monetary cap. As of June 30, 2019, six known malpractice claims have been asserted against CHCI and it is management's opinion that they will be covered by the FTCA coverage.

NOTE 19 – FUNCTIONAL EXPENSES

The Organization's program services include outpatient medical, dental, mental health, school based services and community based services. Management and general expenses include administration, finance and accounting, revenue cycle, information technology, public relations, human resources, legal, supply chain, risk management, compliance and other functions. Expenses are allocated to program services and management and general based on the functional department for which they are incurred. Departmental expenses may include various allocations of costs based on direct assignment, expenses or other methods.

COMMUNITY HEALTH CENTER, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

NOTE 19 – FUNCTIONAL EXPENSES (CONTINUED)

Expenses by functional classification for the year ended June 30, 2019 consist of the following:

	Medical Costs	Dental Costs	Mental Health Costs	School Based Services	Community Based Services	Management and General Services	Total
Salaries and wages	\$ 25,496,478	\$ 5,104,062	\$ 6,156,945	\$ 8,683,470	\$ 3,580,192	\$ 15,201,986	\$ 64,223,133
Fringe benefits	5,216,040	1,287,352	1,543,916	2,042,146	684,228	3,252,616	14,026,298
Supplies	6,040,020	712,682	102,885	341,661	169,361	670,411	8,037,020
Pharmacy services	2,953,273					--	2,953,273
Professional services	3,097,578	662,694	647,205	50	48,624	3,794,616	8,250,767
Purchased services and other	5,720,537	1,240,680	695,474	417,037	490,746	7,099,173	15,663,647
Rent and other capital costs	404,760	125,800	225,875	9,703	467,537	792,855	2,026,530
Interest expense	--	--	--	--	--	1,567,743	1,567,743
Depreciation and amortization	1,658,770	333,813	110,795	111,795	42,164	1,831,908	4,089,245
Total Expenses	\$ 50,587,456	\$ 9,467,083	\$ 9,483,095	\$ 11,605,862	\$ 5,482,852	\$ 34,211,308	\$ 120,837,656

Expenses by functional classification for the year ended June 30, 2018 consist of the following:

	Medical Costs	Dental Costs	Mental Health Costs	School Based Services	Community Based Services	Management and General Services	Total
Salaries and wages	\$ 24,382,378	\$ 5,683,760	\$ 6,365,000	\$ 7,143,097	\$ 2,306,808	\$ 13,220,089	\$ 59,101,132
Fringe benefits	5,256,616	1,224,984	1,419,848	1,941,836	591,065	3,456,904	13,891,253
Supplies	5,878,601	600,472	135,221	229,451	141,624	567,175	7,552,544
Pharmacy services	2,762,846	--	--	--	--	--	2,762,846
Professional services	3,706,694	187,275	346,786	50	593,043	2,107,383	6,941,231
Purchased services and other	3,966,206	1,249,963	234,785	703,362	1,629,418	7,014,417	14,798,151
Rent and other capital costs	747,052	425,392	210,660	9,703	65,059	950,586	2,408,452
Interest expense	--	--	--	--	--	895,206	895,206
Depreciation and amortization	1,691,265	289,732	66,714	144,290	87,991	1,129,110	3,409,102
Total Expenses	\$ 48,391,658	\$ 9,661,578	\$ 8,779,014	\$ 10,171,789	\$ 5,415,008	\$ 29,340,870	\$ 111,759,917

COMMUNITY HEALTH CENTER, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

**TABLE 12.1
SCHEDULE OF NEW MARKETS TAX CREDIT PROGRAM DEBT OBLIGATIONS**

Lender/Collateral	Interest Rate	Monthly Payment	Quarterly Payment	Maturity Date	2019	2018
<u>New Markets Tax Credit Program</u>						
Capital One, National Association Collateralized by shared loan collateral of business assets of the Organization	Variable Rate 5.69%	\$ 50,153	N/A	12/01/24	\$ 11,257,164	\$ 11,333,993
Capital One, National Association Collateralized by shared loan collateral of business assets of the Organization	Variable Rate 5.69%	13,589	N/A	12/01/24	1,897,730	1,957,261
Impact CDE 57, LLC (QLICI Loan A) Collateralized by shared loan collateral of business assets of the Organization	1.32%	N/A	\$ 14,904	12/01/24	4,240,488	4,240,488
Impact CDE 57, LLC (QLICI Loan B) Collateralized by shared loan collateral of business assets of the Organization	1.32%	N/A	2,512	10/01/51	714,762	714,762
Impact CDE 57, LLC (QLICI Loan C) Collateralized by shared loan collateral of business assets of the Organization	1.32%	N/A	7,626	10/01/51	2,394,750	2,394,750
BCC NMTC CDE XXVIII, LLC (QLICI Loan A) Collateralized by shared loan collateral of business assets of the Organization	1.32%	N/A	13,972	11/29/24	4,523,187	4,523,187
BCC NMTC CDE XXVIII, LLC (QLICI Loan B) Collateralized by shared loan collateral of business assets of the Organization	1.32%	N/A	2,355	10/01/51	762,413	762,413
BCC NMTC CDE XXVIII, LLC (QLICI Loan C) Collateralized by shared loan collateral of business assets of the Organization	1.32%	N/A	7,891	10/01/51	2,314,400	2,314,400

COMMUNITY HEALTH CENTER, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

**TABLE 12.1
SCHEDULE OF NEW MARKETS TAX CREDIT PROGRAM DEBT OBLIGATIONS (CONTINUED)**

Lender/Collateral	Interest Rate	Monthly Payment	Quarterly Payment	Maturity Date	2019	2018
<u>New Markets Tax Credit Program (continued)</u>						
PCDC Health Opportunities Fund XVII LLC (QLICI Loan A) Collateralized by shared loan collateral of business assets of the Organization	1.32%	N/A	\$ 20,493	11/29/24	\$ 6,219,383	\$ 6,219,383
PCDC Health Opportunities Fund XVII LLC (QLICI Loan B) Collateralized by shared loan collateral of business assets of the Organization	1.32%	N/A	3,454	10/01/51	1,048,317	1,048,317
PCDC Health Opportunities Fund XVII LLC (QLICI Loan C) Collateralized by shared loan collateral of business assets of the Organization	1.32%	N/A	11,211	10/01/51	3,402,300	3,402,300
COCRF SUBCDE 57, LLC (QLICI Loan A) Collateralized by shared loan collateral of business assets of the Organization	1.32%	N/A	9,315	12/01/24	2,826,992	2,826,992
COCRF SUBCDE 57, LLC (QLICI Loan B) Collateralized by shared loan collateral of business assets of the Organization	1.32%	N/A	1,570	10/01/51	476,508	476,508
COCRF SUBCDE 57, LLC (QLICI Loan C) Collateralized by shared loan collateral of business assets of the Organization	1.32%	N/A	5,590	10/01/51	1,696,500	1,696,500
Capital Impact Partners (CIP Senior Note) Collateralized by shared loan collateral of business assets of the Organization	6.00%	\$ 16,539	N/A	12/01/24	3,286,751	3,307,710
Capital Impact Partners (CIP Subordinate Note) Collateralized by shared loan collateral of business assets of the Organization	6.00%	7,600	N/A	12/01/24	1,510,369	1,520,000

COMMUNITY HEALTH CENTER, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

TABLE 12.1
SCHEDULE OF NEW MARKETS TAX CREDIT PROGRAM DEBT OBLIGATIONS (CONTINUED)

Lender/Collateral	Interest Rate	Monthly Payment	Quarterly Payment	Maturity Date	2019	2018
<u>New Markets Tax Credit Program (continued)</u>						
Primary Care Development Corporation (Senior Source Note)						
Collateralized by shared loan collateral of business assets of the Organization	6.00%	\$ 16,539	N/A	12/01/24	\$ 3,286,162	\$ 3,307,710
Primary Care Development Corporation (Subordinate Source Note)						
Collateralized by shared loan collateral of business assets of the Organization	6.00%	7,600	N/A	12/01/24	1,510,098	1,520,000
Capital One National Association Direct Loan	3.25%	N/A	N/A	12/01/24	498,669	--
Capital Impact Partners (CIP) Direct Loan	6.00%	N/A	N/A	11/30/24	245,147	--
PCDC Direct Loan	6.00%	N/A	N/A	11/30/24	245,147	--
Total new market tax credit program					54,357,237	53,566,674
Less current portion of new market tax credit program					(654,145)	(202,058)
Total new market tax credit program, net of current portion					<u>\$ 53,703,092</u>	<u>\$ 53,364,616</u>

Minimum future principal payments on new markets tax credit program for the next five years and thereafter are as follows:

2020	\$ 654,145
2021	692,563
2022	732,404
2023	774,548
2024	818,424
Thereafter	<u>50,685,148</u>
	<u>\$ 54,357,232</u>

COMMUNITY HEALTH CENTER, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

TABLE 12.2
SCHEDULE OF LONG-TERM DEBT OBLIGATION

Lender/Collateral	Interest Rate	Monthly Payment	Maturity Date	2019	2018
<u>Long-Term Debt</u>					
The Colorado Health Foundation Secured Promissory Note for \$245,000 (\$120,000 available to draw at June 30, 2019)	1.00%	\$ 106	11/27/21	\$ 125,000	\$ --
Capital One, National Association Collateralized by assets of 675 Main Street, Middletown, Connecticut	Variable Rate 5.69%	\$ 33,700	12/01/24	<u>4,914,545</u>	<u>5,053,948</u>
Total long-term debt				5,039,545	5,053,948
Less current portion of long-term debt				<u>(151,043)</u>	<u>(143,345)</u>
Total long-term debt, net of current portion				<u>\$ 4,888,502</u>	<u>\$ 4,910,603</u>

Minimum future principal payments on long-term debt for the next five years and thereafter are as follows:

2020	\$ 151,043
2021	159,138
2022	292,688
2023	176,655
2024	186,123
Thereafter	<u>4,073,898</u>
	<u>\$ 5,039,545</u>

Interest expense on the above long-term debt, the line of credit, and new markets tax credit program was \$1,567,743 and \$895,206 in 2019 and 2018, respectively.

COMMUNITY HEALTH CENTER, INC.

CONSOLIDATING STATEMENT OF FINANCIAL POSITION

JUNE 30, 2019

	CHCI	CHC Realty, Inc.	CHC Realty II, Inc.	CECN	NIMAA	NNPRFTC	Subtotal	Eliminations	CHCI Consolidated
Assets									
Current Assets									
Cash and cash equivalents	\$ 7,398,497	\$ 116,395	\$ 1,519,272	\$ 919,617	\$ 1,352,556	\$ 41,675	\$ 11,348,012	\$ --	\$ 11,348,012
Certificates of deposit	565,067	--	--	--	--	--	565,067	--	565,067
Investments	2,991,766	--	--	--	--	--	2,991,766	--	2,991,766
Net patient accounts receivable	6,033,651	--	--	--	--	--	6,033,651	--	6,033,651
Grant and other receivables	2,996,937	--	3,706	108,238	15,911	32,463	3,157,255	--	3,157,255
Prepaid expenses	1,721,092	--	--	4,531	626	9,650	1,735,899	--	1,735,899
Total Current Assets	<u>21,707,010</u>	<u>116,395</u>	<u>1,522,978</u>	<u>1,032,386</u>	<u>1,369,093</u>	<u>83,788</u>	<u>25,831,650</u>	<u>--</u>	<u>25,831,650</u>
Property and Equipment, net	23,311,108	15,489,554	51,423,281	2,250	35,233	--	90,261,426	--	90,261,426
Notes receivable -									
new markets tax credit program	20,812,050	--	--	--	--	--	20,812,050	--	20,812,050
Due from subsidiaries	4,783,121	800,647	--	--	--	--	5,583,768	(5,583,768)	--
Other assets	568,962	--	--	--	--	--	568,962	--	568,962
	<u>26,164,133</u>	<u>800,647</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>26,964,780</u>	<u>(5,583,768)</u>	<u>21,381,012</u>
Total Assets	<u>\$ 71,182,251</u>	<u>\$ 16,406,596</u>	<u>\$ 52,946,259</u>	<u>\$ 1,034,636</u>	<u>\$ 1,404,326</u>	<u>\$ 83,788</u>	<u>\$ 143,057,856</u>	<u>\$ (5,583,768)</u>	<u>\$ 137,474,088</u>

See independent auditors' report on accompanying consolidating information.

COMMUNITY HEALTH CENTER, INC.

CONSOLIDATING STATEMENT OF FINANCIAL POSITION (CONTINUED)

JUNE 30, 2019

	CHCI	CHC Realty, Inc.	CHC Realty II, Inc.	CECN	NIMAA	NNPRFTC	Subtotal	Eliminations	CHCI Consolidated
Liabilities and Net Assets									
Current Liabilities									
Accounts payable and accrued expenses	\$ 15,780,199	\$ 23,303	\$ --	\$ 49,173	\$ 423,601	\$ 18,240	\$ 16,294,516	\$ --	\$ 16,294,516
Deferred revenue	33,170	--	--	--	391,390	--	424,560	--	424,560
Due to subsidiaries	811	--	--	3,235,188	1,882,657	465,112	5,583,768	(5,583,768)	--
Current portion of notes payable - new markets tax credit program	654,145	--	--	--	--	--	654,145	--	654,145
Line of credit	701,250	--	--	--	--	--	701,250	--	701,250
Current portion long-term debt	<u>--</u>	<u>151,043</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>151,043</u>	<u>--</u>	<u>151,043</u>
Total Current Liabilities	<u>17,169,575</u>	<u>174,346</u>	<u>--</u>	<u>3,284,361</u>	<u>2,697,648</u>	<u>483,352</u>	<u>23,809,282</u>	<u>(5,583,768)</u>	<u>18,225,514</u>
Other Liabilities									
Long-term notes payable - new markets credit program	22,094,129	--	31,608,963	--	--	--	53,703,092	--	53,703,092
Long-term debt, net of current portion	<u>--</u>	<u>4,763,502</u>	<u>--</u>	<u>--</u>	<u>125,000</u>	<u>--</u>	<u>4,888,502</u>	<u>--</u>	<u>4,888,502</u>
Total Liabilities	<u>39,263,704</u>	<u>4,937,848</u>	<u>31,608,963</u>	<u>3,284,361</u>	<u>2,822,648</u>	<u>483,352</u>	<u>82,400,876</u>	<u>(5,583,768)</u>	<u>76,817,108</u>
Net Assets									
Without donor restrictions	<u>31,918,547</u>	<u>11,468,748</u>	<u>21,337,296</u>	<u>(2,249,725)</u>	<u>(1,418,322)</u>	<u>(399,564)</u>	<u>60,656,980</u>	<u>--</u>	<u>60,656,980</u>
Total Liabilities and Net Assets	<u>\$ 71,182,251</u>	<u>\$ 16,406,596</u>	<u>\$ 52,946,259</u>	<u>\$ 1,034,636</u>	<u>\$ 1,404,326</u>	<u>\$ 83,788</u>	<u>\$ 143,057,856</u>	<u>\$ (5,583,768)</u>	<u>\$ 137,474,088</u>

See independent auditors' report on accompanying consolidating information.

COMMUNITY HEALTH CENTER, INC.

CONSOLIDATING STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2019

	CHCI	CHC Realty, Inc.	CHC Realty II, Inc.	CECN	NIMAA	NNPRFTC	Subtotal	Eliminations	CHCI Consolidated
Support and Revenue									
Net patient service revenue, before provision for doubtful accounts	\$ 86,191,542	\$ --	\$ --	\$ --	\$ --	\$ --	\$ 86,191,542	\$ --	\$ 86,191,542
Provision for doubtful accounts	<u>(1,157,897)</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>(1,157,897)</u>	<u>--</u>	<u>(1,157,897)</u>
Net patient service revenue	85,033,645	--	--	--	--	--	85,033,645	--	85,033,645
Grant income	14,982,773	--	--	180,474	283,333	--	15,446,580	--	15,446,580
State bonding	4,911,938	--	1,988,392	--	--	--	6,900,330	--	6,900,330
Pharmacy	8,066,274	--	--	--	--	--	8,066,274	--	8,066,274
Donated vaccines	3,684,777	--	--	--	--	--	3,684,777	--	3,684,777
Meaningful use	255,000	--	--	--	--	--	255,000	--	255,000
Consulting	1,121,828	--	--	841,771	--	--	1,963,599	--	1,963,599
Other income	1,601,399	--	32,219	56,500	376,943	66,098	2,133,159	--	2,133,159
Investment income	230,273	--	189,600	--	--	--	419,873	--	419,873
Rental income	<u>34,921</u>	<u>437,463</u>	<u>603,500</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>1,075,884</u>	<u>(1,040,963)</u>	<u>34,921</u>
Total Support and Revenue	<u>119,922,828</u>	<u>437,463</u>	<u>2,813,711</u>	<u>1,078,745</u>	<u>660,276</u>	<u>66,098</u>	<u>124,979,121</u>	<u>(1,040,963)</u>	<u>123,938,158</u>
Expenses									
Salaries and wages	63,021,997	--	--	649,450	449,741	101,945	64,223,133	--	64,223,133
Fringe benefits	13,846,101	--	--	116,852	42,004	21,341	14,026,298	--	14,026,298
Supplies	7,978,627	--	--	4,432	51,686	2,275	8,037,020	--	8,037,020
Pharmacy expense	2,953,273	--	--	--	--	--	2,953,273	--	2,953,273
Professional services	6,734,137	--	--	739,553	765,174	11,903	8,250,767	--	8,250,767
Purchased services and other	14,891,472	242,443	(18,457)	308,990	84,092	50,157	15,558,697	--	15,558,697
Rent and other capital costs	3,018,656	--	--	21,941	26,896	--	3,067,493	(1,040,963)	2,026,530
Other	--	--	--	104,950	--	--	104,950	--	104,950
Depreciation	2,753,769	440,289	803,511	64,457	17,617	9,602	4,089,245	--	4,089,245
Interest expense	<u>401,577</u>	<u>298,060</u>	<u>867,260</u>	<u>--</u>	<u>846</u>	<u>--</u>	<u>1,567,743</u>	<u>--</u>	<u>1,567,743</u>
Total Expenses	<u>115,599,609</u>	<u>980,792</u>	<u>1,652,314</u>	<u>2,010,625</u>	<u>1,438,056</u>	<u>197,223</u>	<u>121,878,619</u>	<u>(1,040,963)</u>	<u>120,837,656</u>
Increase (Decrease) in Net Assets									
Without Donor Restrictions	<u>\$ 4,323,219</u>	<u>\$ (543,329)</u>	<u>\$ 1,161,397</u>	<u>\$ (931,880)</u>	<u>\$ (777,780)</u>	<u>\$ (131,125)</u>	<u>\$ 3,100,502</u>	<u>\$ --</u>	<u>\$ 3,100,502</u>

See independent auditors' report on accompanying consolidating information.

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

To the Board of Directors
Community Health Center, Inc.

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the consolidated financial statements of Community Health Center, Inc. (the Organization), which comprise the consolidated statement of financial position as of June 30, 2019, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated November 27, 2019.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Community Health Center, Inc.'s 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 financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

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

Marcum LLP

Hartford, CT
November 27, 2019

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL
CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

To the Board of Directors
Community Health Center, Inc.

Report on Compliance for Each Major Federal Program

We have audited Community Health Center, Inc.'s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Community Health Center, Inc.'s major federal programs for the year ended June 30, 2019. Community Health Center, Inc.'s major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

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

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Community Health Center, Inc.'s compliance.

Opinion on Each Major Federal Program

In our opinion, Community Health Center, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2019.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2019-001 and 2019-002. Our opinion on each major federal program is not modified with respect to these matters.

Community Health Center, Inc.'s response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Community Health Center, Inc.'s response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of Community Health Center, Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Community Health Center, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Community Health Center, Inc.'s internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a 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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we did identify a deficiency in internal control over compliance, described in the accompanying schedule of findings and questioned costs as item 2019-001, that we consider to be a significant deficiency.

Community Health Center, Inc.'s response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. Community Health Center, Inc.'s response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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

Marcum LLP

Hartford, CT
December 31, 2019

COMMUNITY HEALTH CENTER, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2019

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-through Grantor and Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
<u>Department of Health and Human Services</u>				
<i>Health Center Program Cluster</i>				
Health Center Program (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, and Public Housing Primary Care)				
Health Center Program (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, and Public Housing Primary Care) - Consolidated Health Centers	93.224	Direct	\$ --	\$ 8,118,632
Health Center Program (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, and Public Housing Primary Care) - Consolidated Health Centers	93.224	Massachusetts League of Community Health Centers - H80CS00152	--	88,387
Total Health Center Program (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, and Public Housing Primary Care)			--	8,207,019
Total Health Center Program Cluster			--	8,207,019
Well-Integrated Screening and Evaluation for Women Across the Nation	93.436	State of Connecticut Department of Public Health - 2014-0026-5	--	3,536
Maternal and Child Health Federal Consolidated Programs	93.110	University of New Hampshire - UH7MC30778	--	93,881
Technical and Non-Financial Assistance to Health Centers	93.129	Direct	--	610,142
HIV-Related Training and Technical Assistance	93.145	Yale University - NEAETC LP AIDS Program	--	5,000
Telehealth Programs	93.211	Direct	--	325,798

See notes to the schedule of expenditures of federal awards.

COMMUNITY HEALTH CENTER, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2019

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-through Grantor and Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
Opioid STR	93.788	Delaware Division of Substance Abuse & Mental Health	\$ --	\$ 9,220
Research on Healthcare Costs, Quality and Outcomes	93.226	National Committee for Quality Assurance - 1R18HS025354-01	--	141,026
Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243	State of Connecticut Department of Mental Health and Addiction Services - 17MHA1054-1/MHA2049	--	243,991
Advanced Nursing Education Workforce Grant Program	93.247	Fairfield University - 522669	--	109,433
Advanced Nursing Education Workforce Grant Program	93.247	University of Connecticut, 1 D09HP29980-01-00	--	103,551
Total Advanced Nursing Education Workforce Grant Program			--	212,984
Centers for Disease Control and Prevention Investigations and Technical Assistance - State Oral Disease Prevention	93.283	State of Connecticut Department of Public Health, 2014-0026-5	--	34,170
Building Capacity of Public Health System to Improve Population Health	93.424	National Association of Community Health Center, Inc.	--	67,427
Affordable Care Act (ACA) Material, Infant, and Early Childhood Home Visiting Program	93.505	State of Connecticut Office of Early Childhood, 18OECHMV01CHC	--	316,874
ACA Grants for School based Capital Development in Health Centers	93.501	Direct	--	2,322
ACA - State Innovation Models: Funding for Model Design and Model Testing Assistance	93.624	State of Connecticut Office of Health Strategy, 17SIM0001	--	102,557
Family Violence Prevention and Services/Domestic Violence Shelter and Supportive Services	93.671	Connecticut Coalition Against Domestic Violence, Inc., HHS-20120ACF-ACYF-FVPS-0272	--	75,631

See notes to the schedule of expenditures of federal awards.

COMMUNITY HEALTH CENTER, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2019

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-through Grantor and Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
AIDS Health Care and Support Services/Ryan White Title II	93.917	State of Connecticut Department of Public Health - 2017-0122	\$ --	\$ 64,197
HIV Emergency Relief Project Grants - Ryan White I	93.914	City of Hartford, HHS2019-52D	--	9,581
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918	Health Resource Services Administration, H76HA00717	--	351,293
Special Projects of National Significance	93.928	City of Hartford, HHS2018-14/HHS2019-16/1001-1859C	--	66,872
HIV Prevention Activities Health Department Based - Ryan White Part II	93.940	State of Connecticut Department of Public Health, 2013-0119-1/DPH2019-0129	--	16,995
<i>Aging Cluster</i>				
Special Programs for the Aging Title III, Part B Grants for Supportive Services and Senior Centers				
Special Programs for the Aging Title III, Part B Grants for Supportive Services and Senior Centers - Norwalk Smiles	93.044	Southwestern Connecticut Area Agency on Aging-18B-12-10	--	57,102
Special Programs for the Aging Title III, Part B Grants for Supportive Services and Senior Centers - Dental Clinic	93.044	Senior Resources Agency on Aging, F-15-2-1100-SDR63901-90696-10604	--	99,989
Special Programs for the Aging Title III, Part B Grants for Supportive Services and Senior Centers - Mericares Senior Dental Program	93.044	South Central Connecticut Area on Aging, #C-045-17-N	--	47,204
Special Programs for the Aging Title III, Part B Grants for Supportive Services and Senior Centers - Dental Services for the Elderly	93.044	North Central Connecticut Area Agency on Aging, 4160	--	32,530
Total Special Programs for the Aging Title III, Part B Grants for Supporting Services and Senior Centers			--	236,825
Total Aging Cluster			--	236,825
Total Department of Health and Human Services			--	11,197,341

See notes to the schedule of expenditures of federal awards.

COMMUNITY HEALTH CENTER, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2019

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-through Grantor and Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
<u>Department of Housing and Urban Development</u>				
<i>CDBG - Entitlement Grants Cluster</i>				
Community Development Block Grants/Entitlement Grants				
Community Development Block Grants/Entitlement Grants	14.218	City of Meriden Economic Development Department - MHA53000	\$ --	\$ 2,068
Community Development Block Grants/Entitlement Grants	14.218	City of Stamford	--	5,350
Community Development Block Grants/Entitlement Grants	14.218	Office of Community Development - 6697	--	15,128
			<u> </u>	<u> </u>
Total Community Development Block Grants/Entitlement Grants			--	22,546
			<u> </u>	<u> </u>
Total CDBG - Entitlement Grants Cluster			--	22,546
			<u> </u>	<u> </u>
Total Department of Housing and Urban Development			--	22,546
			<u> </u>	<u> </u>
<u>United States Department of Justice</u>				
Crime Victim Assistance - Victim's Advocate				
	16.575	Connecticut Coalition Against Domestic Violence Inc. 04-1101-09/12047/03-1600-09	\$ --	\$ 165,183
Violence Against Women Formula Grants				
	16.588	Connecticut Coalition Against Domestic Violence Inc. 2015-WF-AX-0006	--	14,554
			<u> </u>	<u> </u>
Total United States Department of Justice			--	179,737
			<u> </u>	<u> </u>
Total Expenditures of Federal Awards			\$ --	\$ 11,399,624
			<u> </u>	<u> </u>

See notes to the schedule of expenditures of federal awards.

COMMUNITY HEALTH CENTER, INC.

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2019

NOTE 1 – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal award activity of Community Health Center, Inc. under the programs of the Federal government for the year ended June 30, 2019. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of Community Health Center, Inc., it is not intended to and does not present the financial position, changes in net assets or cash flows of Community Health Center, Inc.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, *Cost Principles for Non-Profit Organizations*, wherein certain types of expenditures are not allowable or area limited as to reimbursement.

Pass-through entity identifying numbers are presented where available.

NOTE 3 – INDIRECT COST RATE

Community Health Center, Inc. has elected not to use the 10% de minimis indirect cost rate allowed under Uniform Guidance.

COMMUNITY HEALTH CENTER, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2019

SECTION I – SUMMARY OF AUDITORS’ RESULTS

Financial Statements

Type of auditors' report on whether the financial statements audited were prepared in accordance with GAAP Unmodified

Internal control over financial reporting:

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

Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards

Internal control over major federal programs:

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

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

Any audit findings disclosed that are required to be reported in accordance with 2 CFR Section 200.516(a)? X Yes _____ No

Identification of major federal programs:

CFDA Number	Name of Federal Program or Cluster
	U.S. Department of Health & Human Services Health Resources and Service Administration Health Center Program Cluster
93.224	Consolidated Health Centers
93.224	Passed-through Massachusetts League of Community Health Centers - Consolidated Health Centers
93.247	Advanced Nursing Education Workforce Grant Program

■ Dollar threshold used to distinguish between type A and type B programs \$ 750,000

■ Auditee qualified as low-risk auditee? _____ Yes X No

COMMUNITY HEALTH CENTER, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2019

SECTION II – FINANCIAL STATEMENT FINDINGS

No matters were noted.

COMMUNITY HEALTH CENTER, INC.
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2019

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Finding No. 2019-001

Grantor: U.S. Department of Health and Human Services – Health Center Program Cluster
Pass-through Entity: Direct grant and pass-through grant from Massachusetts League of
Community Health Centers

Federal CFDA: 93.224

Grantor: U.S. Department of Health and Human Services – Pass-Through Entity: Pass-
through grants from Fairfield University and the University of Connecticut.

Federal CFDA: 93.247

Significant Deficiency

Criteria: Costs incurred to complete the requirements of a grant should be properly allocated to their respective grants.

Condition: In some instances, expenditures for grant related purposes lacked correct allocation approval and had to be revised to the proper grant code through manual journal entries.

Questioned Costs: The questioned costs, if any, were not determinable.

Context: Cost allocations were tested in connection with our testing of grant expenditures for major programs.

Cause: Manual grant allocation processing causes misallocations which require correction.

Effect: All grant expenditure allocations must be complete and accurate to ensure all expenditures are within grant expenditure guidelines and reported appropriately to the grantors in the correct period.

Identification of a Repeat Finding: See Finding No. 2018-01.

Recommendation: The Organization is implementing a new system which should interface with purchasing and payroll systems to more appropriately track the allocations. Management should also strengthen controls at the original source entry. This should reduce the risk of human error when allocating grant expenditures to the proper accounts and allow for proper time and effort reporting.

Views of Responsible Officials and Planned Corrective Action: See management's response to the finding and corrective action plan submitted with the reporting package.

COMMUNITY HEALTH CENTER, INC.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2019

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS (CONTINUED)

Finding No. 2019-002

Grantor: U.S. Department of Health and Human Services

Pass-through Entity: Massachusetts League of Community Health Centers

Federal CFDA: 93.224

Criteria: Section 2.6.2 of the 2019 Medical Care and Quality Improvement/Enabling & Outreach Services Contract with the Massachusetts League of Community Health Centers requires Community Health Center, Inc. to submit monthly outreach contact sheets no later than the 15th day of the month following the reporting month to the Massachusetts League of Community Health Centers.

Condition: Community Health Center, Inc. did not submit any of the twelve (12) outreach contact sheets within the required 15 calendar day timeframe during the year ended June 30, 2019.

Questioned Cost: None

Context: The auditor obtained all monthly outreach contact sheets that were required to be submitted to the Massachusetts League of Community Health Centers for the year ended June 30, 2019 and emails to support the dates of the filing of these documents. The emails provided to document the submission dates of these reports indicated that the submissions did not take place until after the 15 day deadline.

Cause: Community Health Center, Inc. did not have the proper programmatic oversight in place related to the reporting requirement dates.

Effect: Untimely submissions hinder the Massachusetts League of Community Health Centers' administration, monitoring and decision making processes over program activities.

Recommendation: Management should implement a process to ensure that employees responsible for submission of reports submit all reports prior to their due dates.

Views of Responsible Officials and Planned Corrective Action: See management's responses to the finding and corrective action plan included within this package.

COMMUNITY HEALTH CENTER, INC.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2019

SECTION IV – SUMMARY OF PRIOR YEAR AUDIT FINDINGS

Finding No. 2018-01:

Condition: In some instances, expenditures for grant related purposes lacked correct allocation approval and had to be revised to the proper grant code through manual journal entries.

Current Status: Same as Finding No. 2019-001.

Finding No. 2018-02:

Condition: There was a lack of evidential matter and approval related to corporate employee credit card charges and the approval process lacked proper internal controls.

Current Status: No matters were reported for the year ended June 30, 2019.

Finding No. 2018-03:

Condition: During the audit of the 340B Program, a breakdown of controls was noted with one of the Organization's newer vendors whereby data transfers were being rejected and the Organization was unaware of the situation.

Current Status: No matters were reported for the year ended June 30, 2019.

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH
MAJOR STATE PROGRAM AND REPORT ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY THE STATE SINGLE AUDIT ACT**

The Board of Directors
Community Health Center, Inc.

Report on Compliance for Each Major State Program

We have audited Community Health Center, Inc.'s compliance with the types of compliance requirements described in the Office of Policy and Management's *Compliance Supplement* that could have a direct and material effect on each of Community Health Center, Inc.'s major state programs for the year ended June 30, 2019. Community Health Center, Inc.'s major state programs are identified in the summary of auditors' 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 state programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Community Health Center, Inc.'s major state programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the State Single Audit Act (C.G.S. Sections 4-230 to 4-236). Those standards and the State Single Audit Act 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 state program occurred. An audit includes examining, on a test basis, evidence about Community Health Center, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major state program. However, our audit does not provide a legal determination of Community Health Center, Inc.'s compliance.

Opinion on Each Major State Program

In our opinion, Community Health Center, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major state programs for the year ended June 30, 2019.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the State Single Audit Act and which are described in the accompanying schedule of findings and questioned costs as items 2019-001 and 2019-002. Our opinion on each major state program is not modified with respect to these matters.

Community Health Center, Inc.'s response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Community Health Center, Inc.'s response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a state 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 state 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 combination of deficiencies, in internal control over compliance with a type of compliance requirement of a state 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 and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 2019-001 and 2019-002, that we consider to be significant deficiencies.

Community Health Center, Inc.'s response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Community Health Center, Inc.'s response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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

Marcum LLP

Hartford, CT
December 31, 2019

COMMUNITY HEALTH CENTER, INC.

SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE

FOR THE YEAR ENDED JUNE 30, 2019

State Grantor/Pass-Through Grantor/Program Title	State Grant Program CORE - CT Number	Passed Through to Subrecipients	Expenditures
<u>Department of Public Health</u>			
Bond Funds - Stamford and Middletown	12052-DPH48615-43536	\$ --	\$ 76,252
Bond Funds - Stamford	12052-DPH48615-41244	--	6,125,360
Bond Funds - Hartford	12052-DPH48615-43452	--	1,126,726
School Based Health Clinics	11000-DPH48500-17019	--	1,138,166
Breast and Cervical Cancer Detection and Treatment	12004-DPH48500-12255	--	73,620
Connecticut Vaccine Program	12004-DPH48500-12563	--	392,598
Connecticut Vaccine Program - Husky B	12004-DPH48500-90618	--	36,860
HIV Services	12004-DPH48500-12236	--	89,359
HIV Services	12060-DPH48500-30401	--	41,169
Passed-through Connecticut Children's Medical Center: Lead Program	11000-DPH48766-12126	--	42,570
<u>Department of Social Services</u>			
Passed-through Connecticut Coalition Against Domestic Violence, Inc. Shelter Services Program	11000-DSS60000-16149	--	287,024
<u>Department of Children & Families</u>			
Outpatient Psychiatric Clinic for Children Treatment and Prevention of Child Abuse	11000-DCF91100-16024	--	225,961
Health Assessment and Consultation	11000-DCF91100-16064	--	7,759
	11000-DCF91100-16008	--	36,870
<u>Office of Early Childhood</u>			
Nurturing Families Network	11000-OEC64800-12603	--	211,383
<u>Department of Mental Health and Addiction Services</u>			
Case Management	11000-DMHAS-16053	--	30,181
Case Management	11000-DMHAS-16053	--	41,089
<u>Judicial Branch</u>			
Passed-through Connecticut Coalition Against Domestic Violence, Inc. Victims Advocate	11000-JUD95810-12047	--	26,106
<u>Office of Policy Management</u>			
Passed-through Connecticut Coalition Against Domestic Violence, Inc. Child Advocate	11000-OPM20350-12251	--	4,805
<u>Office of Health Strategy</u>			
Community & Clinical Integration Program	17SIM0001	--	218,537
Total State Financial Assistance		<u>\$ --</u>	<u>\$ 10,232,395</u>

See notes to schedule of expenditures of state financial assistance.

COMMUNITY HEALTH CENTER, INC.

NOTES TO THE SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE

FOR THE YEAR ENDED JUNE 30, 2019

The accompanying schedule of expenditures of state financial assistance includes state grant activity of Community Health Center, Inc. under programs of the State of Connecticut for the fiscal year ended June 30, 2019. Various departments and agencies of the State of Connecticut have provided financial assistance through grants and other authorizations in accordance with the General Statutes of the State of Connecticut. These financial assistance programs fund several programs including medical, dental, behavioral health, school based and community services programs.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Community Health Center, Inc. conform to accounting principles generally accepted in the United States of America as applicable to not-for-profit organizations.

The information in the schedule of expenditures of state financial assistance is presented based upon regulations established by the State of Connecticut, Office of Policy and Management.

BASIS OF ACCOUNTING

The expenditures reported on the schedule of expenditures of state financial assistance are reported on the accrual basis of accounting. In accordance with Section 4-236-22 of the Regulations to the State Single Audit Act, certain grants are not dependent on expenditure activity, and accordingly, are considered to be expended in the fiscal year of receipt. These grant program receipts are reflected in the expenditures column of the schedule of expenditures of state financial assistance.

COMMUNITY HEALTH CENTER, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2019

SECTION I – SUMMARY OF AUDITORS’ RESULTS

Financial Statements

Type of auditors' report on whether the financial statements audited were prepared in accordance with GAAP Unmodified

Internal control over financial reporting:

 ■ Material weakness(es) identified? _____ Yes _____ X No

 ■ Significant deficiency(ies) identified? _____ Yes _____ X None Reported

Noncompliance material to financial statements noted? _____ Yes _____ X No

State Financial Assistance

Internal control over major programs:

 ■ Material weakness(es) identified? _____ Yes _____ X No

 ■ Significant deficiency(ies) identified? _____ X Yes _____ 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 Section 4-236-24 of the Regulations to the State Single Audit Act? _____ X Yes _____ No

State Grantor and Program	State Core-CT Number	Expenditures
Department of Public Health		
Bond Funds - Stamford	12052-DPH48615-41244	\$ 6,125,360
Bond Funds - Hartford	12052-DPH48615-43452	1,126,726
School Based Health Clinics	11000-DPH48500-17019	1,138,166
HIV Services	12004-DPH48500-12236	89,359
Passed-through Connecticut Children's Medical Center: Lead Program	11000-DPH48766-12126	42,570
Department of Social Services		
Passed-through Connecticut Coalition Against Domestic Violence, Inc.: Shelter Services Program	11000-DSS60000-16149	287,024
Office of Early Childhood		
Nurturing Families Network	11000-OEC64800-12603	211,383
Department of Children & Families		
Outpatient Psychiatric Clinic for Children	11000-DCF91100-16024	225,961
Health Assessment and Consultation	11000-DCF91100-16008	36,870
Judicial Branch		
Passed-through Connecticut Coalition Against Domestic Violence, Inc.: Victims Advocate	11000-JUD95810-12047	26,106
Office of Health Strategy		
Community & Clinical Integration Program	17SIM0001	218,537
■ Dollar threshold used to distinguish between type A and type B programs		\$ 204,000

COMMUNITY HEALTH CENTER, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2019

SECTION II – FINANCIAL STATEMENT FINDINGS

No matters were noted.

SECTION III – STATE FINANCIAL ASSISTANCE FINDINGS AND QUESTIONED COSTS

Finding No. 2019-001

State Grantor and Program	State Core-CT Number
Department of Public Health	
Bond Funds - Stamford	12052-DPH48615-41244
Bond Funds - Hartford	12052-DPH48615-43452
School Based Health Clinics	11000-DPH48500-17019
HIV Services	12004-DPH48500-12236
Passed-through Connecticut Children's Medical Center: Lead Program	11000-DPH48766-12126
Department of Social Services	
Passed-through Connecticut Coalition Against Domestic Violence, Inc.: Shelter Services Program	11000-DSS60000-16149
Office of Early Childhood	
Nurturing Families Network	11000-OEC64800-12603
Department of Children & Families	
Outpatient Psychiatric Clinic for Children	11000-DCF91100-16024
Health Assessment and Consultation	11000-DCF91100-16008
Judicial Branch	
Passed-through Connecticut Coalition Against Domestic Violence, Inc.: Victims Advocate	11000-JUD95810-12047
Office of Health Strategy	
Community & Clinical Integration Program	17SIM0001

Significant Deficiency

Criteria: Costs incurred to complete the requirements of a grant should be properly allocated to their respective grants.

Condition: In some instances, expenditures for grant related purposes lacked correct allocation approval and had to be revised to the proper grant code through manual journal entries.

COMMUNITY HEALTH CENTER, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2019

SECTION III – STATE FINANCIAL ASSISTANCE FINDINGS AND QUESTIONED COSTS (CONTINUED)

Finding No. 2019-001 (Continued)

Questioned Costs: The questioned costs, if any, were not determinable.

Context: Cost allocations were tested in connection with out testing of grant expenditures for major programs.

Cause: Manual grant allocation processing causes misallocations which require correction.

Effect: All grant expenditure allocations must be complete and accurate to ensure all expenditures are within grant expenditure guidelines and reported appropriately to the grantors in the correct period.

Identification of a Repeat Finding: See Finding No. 2018-01.

Recommendation: The Organization is implementing a new system which should interface with purchasing and payroll systems to more appropriately track the allocations. Management should also strengthen controls at the original source entry. This should reduce the risk of human error when allocating grant expenditures to the proper accounts and allow for proper time and effort reporting.

Views of Responsible Officials and Planned Corrective Action: See management's response to the finding and corrective action plan submitted with the reporting package.

Finding No. 2019-002

State Grantor and Program: Department of Social Services - Shelter Services Program
Pass-through Entity: Connecticut Coalition Against Domestic Violence, Inc.
State Core-CT Number: 11000-DSS60000-16149

State Grantor and Program: Department of Public Health – HIV Services
Pass-through Entity: Not Applicable
State Core-CT Number: 12004-DPH48500-12236

Criteria: The Organization should maintain support for expenditures of grant funds with receipts or other proper supporting documentation.

Condition: During the audit of these programs, there were six instances of missing support for expenditures selected for testing.

Questioned Costs: Total unsupported expenditures were \$429 for program number 1100-DSS60000-16149 and \$763 for program number 12004-DPH48500-12236.

COMMUNITY HEALTH CENTER, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2019

SECTION III – STATE FINANCIAL ASSISTANCE FINDINGS AND QUESTIONED COSTS (CONTINUED)

Finding No. 2019-002 (Continued)

Context: Seventy-nine non-payroll expenditures were tested for these major programs and six of these expenditures lacked supporting documentation. The total population tested was \$41,216 for these two grants.

Effect: Lack of receipts or other proper supporting documentation increases the risk of inappropriate or improper expenses being charged to the program.

Cause: An adequate audit trail was not maintained to support the expenditures that were selected for testing.

Recommendation: Management should strengthen internal controls to ensure that all proper supporting documentation is maintained for expenditures.

Views of Responsible Officials and Planned Corrective Action: See management's response to the finding and corrective action plan submitted with the reporting package.

COMMUNITY HEALTH CENTER, INC.
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2019

SECTION IV – SUMMARY OF PRIOR YEAR AUDIT FINDINGS

Finding No. 2018-01:

Condition: In some instances, expenditures for grant related purposes lacked correct allocation approval and had to be revised to the proper grant code through manual journal entries.

Current Status: Same as Finding No. 2019-001.

Finding No. 2018-02:

Condition: There was a lack of evidential matter and approval related to corporate employee credit card charges and the approval process lacked proper internal controls.

Current Status: No matters were reported for the year ended June 30, 2019.

Finding No. 2018-03:

Condition: During the audit of the 340B Program, a breakdown of controls was noted with one of the Organization's newer vendors whereby data transfers were being rejected and the Organization was unaware of the situation.

Current Status: No matters were reported for the year ended June 30, 2019.

COMMUNITY HEALTH CENTER, INC. (CHCI)
FEDERAL CORRECTIVE ACTION PLAN
2 CFR § 200.511(c)
For the Fiscal Year Ended June 30, 2019



AUDIT FINDINGS

Finding Reference Number: 2019-001

Description of Finding: In some instances, expenditures for grant related purposes lacked correct allocation approval and had to be revised to the proper grant code through manual journal entries.

Statement of Concurrence or Nonconcurrence: CHCI agrees with the audit finding.

Corrective Action: Effective July 1, 2019, CHCI moved all time-keeping, financial accounting, and grant accounting to the Workday system. Workday, a state-of-the-art ERP, processes transactions through clearly delineated sequential approval processes. Employees are now required to approve their assignment of time to grants as part of the time-submission process for payroll. Time-submission and non-salary expenditures now follow a rigid approval process which increases oversight, reduces the risk of human error and provides multiple points of review to identify misclassified items.

CHCI moved all timekeeping and accounting to Workday effective July 1, 2019

Name of Contact Person: Robert Block, CFO blockr@chc1.com, 860-852-0821

Projected Completion Date: April 1, 2020

Finding Reference Number: 2019-002

Description of Finding: CHCI did not submit any of the twelve (12) outreach contact sheets within the required 15 calendar day timeframe during the year ended June 30, 2019 as required by Section 2.6.2 of the 2019 Medical Care and Quality Improvement/Enabling & Outreach Services Contract with the Massachusetts League of Community Health Centers.

Statement of Concurrence or Nonconcurrence: CHCI agrees with the audit finding.

Corrective Action: CHCI will create a master report submission calendar by January 15, 2020, which will list all Federal Awards, each report submission filing date, the responsible PI, the responsible Grant Manager, and the date report was actually filed. Grant Managers will be responsible during each month to verify that all reports due that month have been filed prior to the due date and will record the date filed in the calendar. The CFO or designee will review the calendar as part of each month end close. Disciplinary action will be taken on a PI and Grant Manager if a report is not filed prior to the due date.

Projected Completion Date: January 15, 2020

If the Oversight Agency has questions regarding this Plan, please call Robert Block, 860-852-0821.

Sincerely yours,

A handwritten signature in black ink, appearing to read "R. Block", is written over a light blue horizontal line.

Robert Block
Chief Financial Officer



December 31, 2019

Community Health Center, Inc. (CHCI)
State Single Audit Corrective Action Plan*
For the Fiscal Year Ended June 30, 2019

Office of Policy and
Management 450 Capitol
Avenue MS-54MFS Hartford,
Connecticut 06106-1379

Municipal Finance Services Unit Attention: William Plummer

AUDIT FINDINGS

Finding Reference Number: 2019-001

Description of Finding: In some instances, expenditures for grant related purposes lacked correct allocation approval and had to be revised to the proper grant code through manual journal entries.

Statement of Concurrence or Nonconcurrence: CHCI agrees with the audit finding.

Corrective Action: Effective July 1, 2019, CHCI moved all time-keeping, financial accounting, and grant accounting to the Workday system. Workday, a state-of-the-art ERP, processes transactions through clearly delineated sequential approval processes. Employees are now required to approve their assignment of time to grants as part of the time-submission process for payroll. Time-submission and non-salary expenditures now follow a rigid approval process which increases oversight, reduces the risk of human error and provides multiple points of review to identify misclassified items.

CHCI moved all timekeeping and accounting to Workday effective July 1, 2019

Name of Contact Person: Robert Block, CFO blockr@chc1.com, 860-852-0821

Projected Completion Date: April 1, 2020

Finding Reference Number: 2019-002

Description of Finding: During the audit, there were six instances of missing support for expenditures selected for testing. Seventy-nine non-payroll expenditures were tested for these major programs and six of these expenditures lacked supporting documentation. The total population tested was \$41,216 for these two grants.

Statement of Concurrence or Nonconcurrence: CHCI agrees with the audit finding.

Corrective Action: Effective July 1, 2019, CHCI moved all time-keeping, financial accounting, and grant accounting to the Workday system. Workday, a state-of-the-art ERP, processes transactions through clearly delineated sequential approval processes. Employees are now required to approve their assignment of time to grants as part of the time-submission process for payroll. Time-submission and non-salary expenditures now follow a rigid approval process which increases oversight, reduces the risk of human error and provides multiple points of review to identify misclassified items.

CHCI moved all timekeeping and accounting to Workday effective July 1, 2019

Projected Completion Date: April 1, 2020

QUESTIONED COSTS

1. For each questioned cost, the organization should identify the amount by state financial assistance or award program and the program period.

Total unsupported expenditures were \$429 for program number 1100-DSS60000-16149 and \$763 for program number 12004-DPH48500-12236.

2. Cost includes an item that did not have a receipt. Based on vendor and type of items purchased from this vendor, CHCI believes this to be an allowable cost.

3. Receipt cannot be located

4. CHCI believes expense to be allowable.

If the Office of Policy and Management and/or Oversight Agency has questions regarding this Plan, please call Robert Block, 860-852-0821

Sincerely yours,



Robert Block
Chief Financial Officer

* The Office of Policy and Management (OPM) as the cognizant agency for municipalities, tourism districts, other local governments and nonprofit entities, require that the corrective action plan be included in the paper copy of the reporting package submitted to OPM and that it be included in the electronic version of the reporting package filed on OPM's Electronic Audit Reporting System (EARS) website. Grantor agencies have agreed to use the electronic version of the State Single Audit reporting packages filed on EARS instead of receiving individual paper audit reporting packages. Therefore, audit reporting packages filed electronically on OPM's website are not considered complete without the corrective action plan being included for state grantor agencies to review.