

**Community Healthcare Network, Inc.**

**Financial Statements,  
Schedule of Expenditures of Federal Awards,  
Internal Control and Compliance  
(With Supplementary Information)  
and Independent Auditor's Report**

**December 31, 2012**

# Community Healthcare Network, Inc.

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## Independent Auditor's Report

To the Board of Directors  
Community Healthcare Network, Inc.

### *Report on the Financial Statements*

We have audited the accompanying financial statements Community Healthcare Network, Inc. ("CHN"), which comprise the statement of financial position as of December 31, 2012, and the related statements of activities and changes in net assets, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

### *Management's Responsibility for the Financial Statements*

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

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to CHN'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 CHN's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### *Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of CHN as of December 31, 2012, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### *Other Matters*

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

### *Other Reporting Required by Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 14, 2013, on our consideration of CHN's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering CHN's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "CohnReznick LLP".

New York, New York  
August 14, 2013

Community Healthcare Network, Inc.

Statement of Financial Position  
December 31, 2012

Assets

Current assets:

Cash and cash equivalents	\$ 7,770,779
Certificates of deposit	3,997,530
Patient services receivable, net	5,487,279
Grants and contracts receivable	4,533,670
Prepaid expenses and other current assets	172,410
Total current assets	<u>21,961,668</u>

Assets limited as to use:

Cash and cash equivalents	6,251,178
Certificates of deposit	3,748,822
Total assets limited as to use	<u>10,000,000</u>

Property and equipment, net	11,276,346
Security deposits and other assets	<u>755,029</u>

Total assets	<u>\$ 43,993,043</u>
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Liabilities and Unrestricted Net Assets

Current liabilities:

Accounts payable and accrued expenses	\$ 2,395,702
Accrued compensation	1,373,425
Total current liabilities	<u>3,769,127</u>

Long-term liabilities:

Deferred rent	402,831
Other long-term liabilities	99,220
Total liabilities	<u>4,271,178</u>

Commitments and contingencies

Net assets - unrestricted:

Undesignated	29,721,865
Board-designated for capital projects	10,000,000
Total unrestricted net assets	<u>39,721,865</u>

Total liabilities and unrestricted net assets	<u>\$ 43,993,043</u>
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See Notes to Financial Statements.

Community Healthcare Network, Inc.

Statement of Activities and Changes in Net Assets  
Year Ended December 31, 2012

Operating revenue:	
Patient services (net of contractual allowances and discounts)	\$ 30,805,023
Provision for bad debts	(702,515)
Net patient services revenue net of provision for bad debt	<u>30,102,508</u>
Contract services and other grants	10,262,832
DHHS grants	4,252,405
Donated vaccines	490,331
Other income	886,644
Total operating revenue	<u>45,994,720</u>
Operating expenses:	
Salaries and fringe benefits	28,208,145
Other than personnel services	11,650,303
Total operating expenses	<u>39,858,448</u>
Operating income prior to depreciation and amortization	6,136,272
Depreciation and amortization	<u>1,284,491</u>
Operating income prior to nonoperating revenue	4,851,781
Nonoperating revenue:	
DHHS grants for capital additions	<u>1,316,211</u>
Increase in unrestricted net assets	6,167,992
Unrestricted net assets, beginning of year	<u>33,553,873</u>
Unrestricted net assets, end of year	<u>\$ 39,721,865</u>

See Notes to Financial Statements.

**Community Healthcare Network, Inc.**

**Statement of Functional Expenses  
Year Ended December 31, 2012**

	Program Services	General and Administrative	Total
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Salaries and wages	\$ 18,024,441	\$ 4,197,766	\$ 22,222,207
Employee benefits	4,855,196	1,130,742	5,985,938
Healthcare consultants	1,099,416		1,099,416
Laboratory	573,669		573,669
Professional fees		157,235	157,235
Consultants and contractual services	481,447	263,285	744,732
Consumable supplies	3,492,531	122,179	3,614,710
Occupancy	2,000,646	618,353	2,618,999
Insurance	118,046	39,349	157,395
Repairs and maintenance	123,243	41,081	164,324
Equipment rental	183,483	61,161	244,644
Telephone	612,175	204,059	816,234
Travel, conferences and meetings	189,785	81,337	271,122
Printing, publication and postage	102,374	43,876	146,250
Staff training	68,837	29,502	98,339
Personnel recruitment	224,324	65,096	289,420
Public information	43,903		43,903
Client services	79,650		79,650
Miscellaneous	348,677	181,584	530,261
Totals	<u>32,621,843</u>	<u>7,236,605</u>	<u>39,858,448</u>
Depreciation and amortization	<u>963,368</u>	<u>321,123</u>	<u>1,284,491</u>
Total functional expenses	<u>\$ 33,585,211</u>	<u>\$ 7,557,728</u>	<u>\$ 41,142,939</u>

## Community Healthcare Network, Inc.

### Statement of Cash Flows Year Ended December 31, 2012

Operating activities:	
Increase in net assets	\$ 6,167,992
Adjustments to reconcile increase in net assets to net cash provided by operating activities:	
Nonoperating grants and contracts - construction projects	(1,316,211)
Provision for bad debt	702,515
Depreciation and amortization	1,284,491
Deferred rent	145,589
Changes in operating assets and liabilities:	
Patient services receivable	(109,579)
Grants and contracts receivable	(1,897,665)
Prepaid expenses and other current assets	(22,947)
Security deposits and other assets	(148,284)
Accounts payable and accrued expenses	160,219
Accrued compensation	(111,062)
Net cash provided by operating activities	<u>4,855,058</u>
Investing activities:	
Purchase of property and equipment	(1,910,354)
Purchase of certificates of deposit	(26,737)
Increase in assets limited as to use	(3,061,341)
Net cash used in investing activities	<u>(4,998,432)</u>
Financing activities - receipt of nonoperating grants and contracts - construction projects	<u>1,316,211</u>
Net increase in cash and cash equivalents	1,172,837
Cash and cash equivalents, beginning of year	<u>6,597,942</u>
Cash and cash equivalents, end of year	<u>\$ 7,770,779</u>

# Community Healthcare Network, Inc.

## Notes to Financial Statements

### Note 1 - Organization:

Community Healthcare Network, Inc. ("CHN") operates free-standing diagnostic and treatment centers, licensed under Article 28 and Article 31 of the New York State Health Law. The diagnostic and treatment centers are located throughout New York City. CHN provides a broad range of health services, including mental health, to a largely medically underserved population. CHN is supported primarily by patient service fees, contracted services and government grants.

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

### Note 2 - Significant accounting policies:

#### **Basis of presentation:**

The financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America.

#### **Use of estimates:**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

#### **Classification of net assets:**

CHN classifies its net assets into three categories, which are described as follows:

*Unrestricted* net assets are reflective of revenues and expenses associated with the principal operating activities of CHN and are not subject to donor-imposed stipulations.

*Temporarily restricted* net assets are subject to donor-imposed stipulations that may or will be met either by actions of CHN and/or the passage of time. When a donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and are reported in the statement of activities and changes in net assets as net assets released from restriction. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the financial statements. There were no temporarily restricted net assets as of December 31, 2012.

## Community Healthcare Network, Inc.

### Notes to Financial Statements

*Permanently restricted* net assets are subject to donor-imposed stipulations that must be maintained permanently by CHN. There were no permanently restricted net assets at December 31, 2012.

#### **Cash and cash equivalents and assets limited to use:**

CHN maintains its cash and cash equivalents in bank deposit accounts which, at times, may exceed Federally-insured limits. Assets limited as to use include cash and cash equivalents and certificates of deposit which have been designated by the Board of Directors to be used for capital projects. CHN has not experienced any losses in such accounts. At December 31, 2012, CHN's cash and cash equivalent balance exceeds Federally insured limits by approximately \$13,938,000. All highly liquid investments with maturities of three months or less when purchased are considered to be cash equivalents.

#### **Patient services receivable:**

The collection of receivables from third-party payors and patients is CHN's primary source of cash for operations and is critical to its operating performance. The primary collection risks relate to uninsured patient accounts and patient accounts for which the primary insurance payor has paid, but patient responsibility amounts (deductibles and copayments) remain outstanding. Patient receivables from third-party payors are carried at a net amount determined by the original charge for the service provided, less an estimate made for contractual adjustments or discounts provided to third-party payors.

Receivables due directly from patients are carried at the original charge for the service provided less discounts provided under CHN's charity care policy, less amounts covered by third-party payors and less an estimated allowance for doubtful receivables. Management determines the allowance for doubtful accounts by identifying troubled accounts and by historical experience applied to an aging of accounts. CHN considers accounts past due when they are outstanding beyond 90 days with no payment. CHN generally does not charge interest on past due accounts. Patient receivables are written off against the allowance for doubtful accounts when deemed uncollectible. Recoveries of receivables previously written off are recorded as a reduction of bad debts expense when received.

#### **Concentration of credit risk:**

Financial instruments that potentially subject CHN to concentrations of credit risk consist principally of cash, cash equivalents, certificates of deposit, patient services receivable and assets limited as to use. CHN places its cash, cash equivalents, certificates of deposit and assets limited as to use with high-quality financial institutions. CHN monitors its financial institutions and the concentration of credit risk on a regular basis and does not anticipate nonperformance by the financial institutions. An allowance for doubtful accounts

## Community Healthcare Network, Inc.

### Notes to Financial Statements

for patient services receivable is provided based upon management's assessment of individual accounts, past history of write-offs and collections, and current credit conditions.

#### **Grants and contracts receivable:**

Grants and contracts receivable consist of costs under the grant and contract agreements which were incurred prior to year-end for which payment has not been received. Grants and contracts receivable credit risk is limited due to the nature of the grants and contracts. CHN regularly monitors its grants and contracts receivable by investigating delayed payments and differences when payments received do not conform to the amount billed. CHN considers all grants and contracts as collectible.

#### **Property and equipment:**

Property and equipment are recorded at cost or, if donated, at the fair value at the date of donation. Depreciation and amortization are recorded on a straight-line basis over the estimated useful lives of the assets, ranging from 3 to 40 years. Leasehold improvements are amortized on a straight-line basis over the estimated useful life of the improvement or the term of the lease, whichever is less. CHN capitalizes all purchases of property and equipment in excess of \$500.

Maintenance, repairs and minor renewals are expensed as incurred. When assets are retired or otherwise disposed of, their costs and related accumulated depreciation and amortization are removed from the accounts and any resulting gains or losses are included in change in net assets.

Construction-in-progress is recorded at cost. CHN capitalizes construction, insurance and other costs during the period of construction. Depreciation is recorded when construction is substantially complete and the assets are placed in service.

According to Federal regulations, any equipment obtained through Federal funds is subject to a lien by the Federal government. Provided that CHN maintains its tax-exempt status, and the equipment is used for its intended purpose, CHN is not required to reimburse the Federal government. If the Federal requirements are not met, CHN would be obligated to the Federal government in an amount equal to the fair value of the equipment.

#### **Impairment of long-lived assets:**

CHN reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In performing a review for impairment, CHN compares the carrying value of the assets with their estimated future undiscounted cash flows. If it is

## Community Healthcare Network, Inc.

### Notes to Financial Statement

determined that impairment has occurred, the loss would be recognized during that period. The impairment loss is calculated as the difference between the asset's carrying value and the present value of estimated net cash flows or comparable market values, giving consideration to recent operating performance and pricing trends. CHN does not believe that any material impairment currently exists related to its long-lived assets.

#### **Deferred rent:**

CHN occupies certain buildings under leases containing escalation clauses that require normalization of the rental expense over the life of the lease. The resulting deferred rent is reflected in the accompanying statement of financial position.

#### **Patient services revenue:**

CHN has agreements with third-party payors that provide for payments to CHN at amounts different from its established rates. Payment arrangements include predetermined fee schedules and discounted charges. Service fees are 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 administering agencies. These adjustments are accrued on an estimated basis, and are adjusted in future periods as final settlements are determined.

CHN provides care to certain patients under Medicaid and Medicare payment arrangements. Laws and regulations governing the Medicaid and Medicare programs are complex and subject to interpretation. Compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action. Self-pay revenue is recorded at published charges with charitable care deducted to arrive at gross self-pay revenue. Contractual allowances are then deducted to arrive at net self-pay patient revenue before provision for bad debts.

#### **Grants and contracts revenue:**

Revenue from government grants and contracts designated for use in specific activities is recognized in the period when expenditures have been incurred in compliance with the grantor's restrictions. Grants and contracts awarded for the acquisition of long-lived assets are reported as unrestricted non-operating revenue, in the absence of donor stipulations to the contrary, during the fiscal year in which the assets are acquired. Cash received in excess of revenue recognized is recorded as refundable advances.

At December 31, 2012, CHN has received conditional grants and contracts from governmental entities in the aggregate amount of \$5,783,793 that have not been recorded in the accompanying financial statements as they have not

## **Community Healthcare Network, Inc.**

### **Notes to Financial Statements**

been earned. These grants and contracts require CHN to provide certain services during specified periods. If such services are not provided during the periods, the governmental entities are not obligated to expend the funds allotted under the contracts.

#### **Contributions:**

Contributions are recorded as either temporarily or permanently restricted revenue if they are received with donor stipulations that limit the use of the donated asset. Contributions received with no donor stipulations are recorded as unrestricted revenue. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of activities and changes in net assets as net assets released from restrictions. Donor-restricted contributions whose restrictions expire during the same fiscal year are recognized as unrestricted revenue. Conditional contributions are recognized in the period when expenditures have been incurred in compliance with the grantor.

#### **In-kind contributions:**

Donated vaccines are recognized in the accompanying financial statements based on fair value.

#### **Meaningful use incentives:**

The American Recovery and Reinvestment Act of 2009 ("ARRA") amended the Social Security Act to establish one-time incentive payments under the Medicare and Medicaid programs for certain professionals that: (1) meaningfully use certified Electronic Health Record ("EHR") technology, (2) use the certified EHR technology for electronic exchange of health information to improve quality of healthcare, and (3) use the certified EHR technology to submit clinical and quality measures. These provisions of ARRA, together with certain of its other provisions, are referred to as the Health Information Technology for Clinical and Economic Health ("HITECH") Act. The criteria for meaningful use incentives will be staged in three steps over the course of the next six years and be paid out based on a transitional schedule. CHN's providers have met the criteria for Stage 1 and have earned \$637,500 from the Medicaid incentive program for the year ended December 31, 2012, which is included in other income in the statement of activities and changes in net assets.

#### **Interest earned on Federal funds:**

Interest earned on Federal funds is recorded as a payable to the United States Public Health Service (the "PHS") in compliance with the regulations of the United States Office of Management and Budget Circular A-110.

## Community Healthcare Network, Inc.

### Notes to Financial Statements

#### Functional expenses:

Expenses are charged to program services or general and administrative based on a combination of specific identification and allocation by management.

#### Performance indicator:

The statement of activities and changes in net assets includes operating income prior to non-operating activity as the performance indicator. Changes in unrestricted net assets which are excluded from the performance indicator include DHHS grants for capital additions.

#### Tax status:

CHN was incorporated as a not-for-profit corporation under the laws of the State of New York and is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Therefore, there is no provision for income taxes. CHN has no unrecognized tax benefits at December 31, 2012. CHN's Federal and state income tax returns prior to fiscal year 2009 are closed and management continually evaluates expiring statutes of limitations, audits, proposed settlements, changes in tax law and new authoritative rulings.

CHN recognizes interest and penalties associated with tax matters as operating expenses and includes accrued interest and penalties with accrued expenses in the statement of financial position.

#### Subsequent events:

CHN has evaluated subsequent events through August 14, 2013, which is the date the financial statements were available to be issued.

#### Note 3 - Patient services receivable, net:

Patient services receivable, net consists of the following:

Medicaid	\$ 2,148,634
Medicaid Managed Care	419,461
Medicare	233,337
Private insurance	515,270
Self-pay	35,506
New York State Medicaid Managed Care Wraparound	1,300,176
New York State Uncompensated Care	<u>1,773,706</u>
Total	6,426,090
Less allowance for doubtful accounts	<u>938,811</u>
Total	<u>\$ 5,487,279</u>

Patient services receivable are reduced by an allowance for doubtful accounts. In evaluating the collectability of patient services receivable, CHN analyzes its past

## Community Healthcare Network, Inc.

### Notes to Financial Statements

history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts. For receivables associated with services provided to patients who have third-party coverage, CHN analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid, or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely). For receivables associated with self-pay patients (which include both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), CHN records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates or the discounted rates provided by CHN's policy and the amounts actually collected after all reasonable collection efforts have been exhausted is charged against the allowance for doubtful accounts.

CHN's allowance for doubtful accounts was 15 percent of patient services receivable at December 31, 2012. CHN had \$332,113 of direct write-offs for the year ended December 31, 2012. CHN has not changed its charity care or uninsured discount policies during fiscal year 2012.

#### **Note 4 - Grants and contracts receivable:**

Grants and contracts receivable consist of the following:

U.S. Department of Health and Human Services	\$ 340,676
New York State Department of Health:	
Family Planning Program	2,431,784
Comprehensive Adolescent Pregnancy Prevention	225,439
Department of Health and Mental Hygiene:	
Maternal, Infant & Reproductive Services	465,375
New York City Department of Health:	
Infant Mortality	51,900
Public Health Solutions:	
Title X	316,155
Family Planning Services	91,290
Early Intervention Services: Social Network Strategy	
Testing in Non-Clinical Settings	21,542
NYC IPP Project	3,029

## Community Healthcare Network, Inc.

### Notes to Financial Statements

Health Research, Inc.:	
ADAP Outreach and Enrollment in Healthcare	49,016
Women's Supportive Services	34,347
Ryan White Part B	24,907
Community Prevention and HIV Primary Care	9,393
New York Downtown Hospital Community Benefit Grant	241,875
Other	<u>226,942</u>
Total	<u>\$ 4,533,670</u>

#### Note 5 - Property and equipment, net:

Property and equipment, net, consists of the following:

Land	\$ 37,931
Building and building improvements	11,490,866
Leasehold improvements	4,211,632
Furniture and equipment	7,267,363
Construction-in-progress	<u>1,415,839</u>
Total	24,423,631
Less accumulated depreciation and amortization	<u>13,147,285</u>
Total	<u>\$11,276,346</u>

In the event the DHHS grants are terminated, the DHHS reserves the right to transfer all property and equipment purchased with grant funds to the PHS or third parties.

#### Note 6 - Line of credit:

CHN has a revolving line of credit with a bank in the amount of \$1,000,000 maturing on August 31, 2013. Interest is charged on any outstanding balance at the greater of 4% or the prime rate plus .50% (3.75% as of December 31, 2012). The line of credit is secured by a first security interest in all business assets of CHN. There was no amount outstanding on the line of credit at December 31, 2012.

## Community Healthcare Network, Inc.

### Notes to Financial Statements

#### Note 7 - Contract services and other grants revenue:

Contract services and other grants revenue consists of the following:

New York State Department of Health:	
Family Planning Program	\$ 5,051,593
Comprehensive Adolescent Pregnancy Prevention	601,156
Youth Access Program	207,443
Primary Care HIV Program	257,312
New York State Aids Education and Outreach	197,267
New York City Department of Health and Mental Hygiene:	
Adolescent Health Contract	106,778
Maternal, Infant & Reproductive Services	465,375
Infant Mortality	51,855
NYC Counseling and Testing	236,419
Check Hep C NYC	157,521
Health Research, Inc.:	
ADAP Outreach and Enrollment in Healthcare	321,215
Ryan White Part B	166,992
Community Prevention and HIV Primary Care	65,754
Women's Supportive Services	198,659
Public Health Solutions:	
Title X	708,297
Family Planning Services	281,290
Communities of Color – HIV Prevention	45,000
Early Intervention Services: Social Network Strategy	
Testing in Non-Clinical Settings	107,170
NYC IPP Project	75,070
New York Downtown Hospital Community Benefit Grant	250,000
Gilead Sciences, Inc.	119,337
Paul Rapoport Foundation	209,247
New York City Metroplus Health – HIV SNP	118,056
Dormitory Authority State of New York	50,000
Other	<u>214,026</u>
 Total	 <u>\$ 10,262,832</u>

## Community Healthcare Network, Inc.

### Notes to Financial Statements

#### Note 8 - DHHS grants:

CHN recognized grant revenue from the DHHS as follows:

Grant Number	Grant Period	Total Grant Amount	Operating Revenue	Nonoperating Revenue	Total DHHS Grant Revenue
6 H80CS00597-10-09	05/01/11 – 04/30/12	\$ 3,527,399	\$ 1,194,282		\$ 1,194,282
6 H80CS00597-11-03	05/01/12– 04/30/13	3,595,400	2,339,945		2,339,945
4 C80CS17068-01-07	12/09/09 - 12/31/12	1,365,788		\$ 1,296,095	1,296,095
6 C8BCS23877-01-04	05/01/12– 04/30/14	500,000		20,116	20,116
1 H97HA24967-01-01	09/01/12 – 08/31/13	300,000	47,110		47,110
5 H76HA00049-21-02	01/01/12 – 12/31/12	671,068	671,068		671,068
Totals		<u>\$ 9,959,655</u>	<u>\$ 4,252,405</u>	<u>\$ 1,316,211</u>	<u>\$ 5,568,616</u>

#### Note 9 - Patient services revenue, net:

CHN recognizes patient services revenue associated with services provided to patients who have Medicaid, Medicare, Third Party Payor and Managed Care plans coverage on the basis of contractual rates for services rendered. For uninsured self pay patients that do not qualify for charity care, CHN recognizes revenue on the basis of its standard rates for services provided or on the basis of discounted rates if negotiated or provided by CHN's policy. Charity care services are computed using a sliding fee scale based on patient income and family size. On the basis of historical experience, a significant portion of CHN's uninsured patients will be unable or unwilling to pay for the services provided. Thus, CHN records a provision for bad debts related to uninsured patients in the period the services are provided. Patient service revenue, net of contractual allowances and discounts (but before the provision for bad debts), recognized in the period from these major payor sources, is as follows:

Medicaid	\$ 4,732,598
Medicaid Managed Care	8,446,774
Medicare	391,642
Private insurance	827,381
Self-pay	1,246,523
Pharmacy and other	354,195
New York State Medicaid Managed Care Wraparound	11,264,519
New York State Uncompensated Care	<u>3,541,391</u>
Total	<u>\$ 30,805,023</u>

Based on the cost of patient services, charity care and community benefit approximates \$7,500,000 and \$713,696, respectively.

Medicaid and Medicare revenue is reimbursed to CHN at the net reimbursement rates determined by each program. Reimbursement rates are subject to revisions under the provision of reimbursement regulations. Adjustments for such revisions are recognized in the fiscal year incurred.

## Community Healthcare Network, Inc.

### Notes to Financial Statements

#### Note 10- Pension plans:

CHN maintains a noncontributory retirement plan which covers all employees meeting certain eligibility requirements. Contributions to the plan are based on a percent of salaries. There were no contributions made for the year ended December 31, 2012.

In addition, CHN sponsors a contributory 403(b) Tax-Sheltered Annuity Savings and Retirement Plan (the "403(b) plan") for all employees meeting certain eligibility requirements. Contributions to the plan are based on elective deferrals and matching. CHN accrued employer contribution to the 403(b) plan of \$150,549 for the year ended December 31, 2012.

#### Note 11- Leases:

CHN operates out of 9 facilities. There are lease agreements which provide for occupancy of the properties with expiration dates ranging from 2013 to 2022. For the year ended December 31, 2012, rent expense amounted to \$1,787,219. Future minimum lease payments in each of the five years subsequent to December 31, 2012 and thereafter are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2013	\$ 1,544,640
2014	1,606,863
2015	1,665,855
2016	1,520,705
2017	942,199
Thereafter	<u>5,119,167</u>
Total	<u>\$ 12,399,429</u>

The lease for one of CHN's spaces includes scheduled base rent increases over the term of the lease. The total amount of the base rent payments is being charged to expense on the straight-line method over the term of the lease. CHN has recorded deferred rent to reflect the excess of rent expense over payments since inception of the lease.

#### Note 12- Commitments and contingencies:

CHN has contracted with various funding agencies to perform certain healthcare services, and receives Medicaid and Medicare revenue from the Federal and state governments. Reimbursements received under these contracts and payments under Medicaid and Medicare are subject to audit by the Federal and state governments and other agencies. Upon audit, if discrepancies are discovered, CHN could be held responsible for reimbursing the agencies for the amounts in question.

## **Community Healthcare Network, Inc.**

### **Notes to Financial Statements**

CHN has executed a deferred compensation agreement with a key employee, which requires future annual contributions totaling approximately \$3,000 per year, with escalation clauses starting on the eleventh year. Investments in these accounts, including any gains or losses, are owned by CHN until they are distributed upon termination of employment as defined in the agreement. The investment consists of the cash surrender value of a life insurance policy. The investment is recorded in security deposits and other assets in the statement of financial position, while the corresponding liability is recorded under other long-term liabilities and amounted to \$50,163 as of December 31, 2012.

CHN maintains its medical malpractice coverage under the Federal Tort Claims Act ("FTCA"). FTCA provides malpractice coverage to eligible PHS-supported programs and applies to CHN and its employees while providing services within the scope of employment included under grant-related activities. The Attorney General, through the U.S. Department of Justice, has the responsibility for the defense of the individual and/or grantee for malpractice cases approved for FTCA coverage.

CHN purchases professional and general liability insurance to cover medical malpractice claims in excess of the FTCA coverage. There are no known claims or incidents that may result in the assertion of additional claims arising from services provided to patients as of December 31, 2012.

CHN is involved in a legal action that has arisen in the ordinary course of business. Management is of the opinion that the ultimate outcome of this matter will not have a material adverse impact on the financial position of CHN or the results of its operations.

**Community Healthcare Network, Inc.**

**Schedule of Expenditures of Federal Awards  
Year Ended December 31, 2012**

<b>Federal Grantor/Pass Through Grantor / Program Title</b>	<b>Federal CFDA Number</b>	<b>Agency or Pass- Through Grantor's Number</b>	<b>Federal Expenditures</b>
Federal Awards:			
U.S. Department of Health and Human Services:			
Direct Programs:			
Health Centers Cluster:			
Consolidated Health Centers	93.224	N/A	\$ 2,095,647
Affordable Care Act (ACA) Grants for New and Expanded Services under the Health Center Program	93.527	N/A	<u>1,438,580</u>
Total Health Center Cluster			<u>3,534,227</u>
ARRA - Grants to Health Center Programs:			
Facility Improvement Program	93.703	N/A	1,296,095
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918	N/A	671,068
Affordable Care Act (ACA) Grants for Capital Development in Health Centers	93.526	N/A	20,116
Special Project of National Significance	93.928	N/A	47,110
Passed through New York State Department of Health:			
Family Planning Services	93.217	C027018	1,010,319
Passed through Public Health Solutions:			
Family Planning Services	93.217	12-CHN-01	<u>708,297</u>
			<u>1,718,616</u>
Passed through New York State Department of Health:			
Maternal and Child Health Services Block Grant to the States	93.994	C027018/C026970	552,087
Passed through Public Health Solutions:			
Maternal and Child Health Services Block Grant to the States	93.994	FPHP020468-32	<u>28,129</u>
			<u>580,216</u>
Medical Assistance Program	93.778	C026970	168,805
Passed through Public Health Solutions:			
HIV Emergency Relief Project Grants	93.914	11-EIN-519	107,170
Passed through Health Research Inc.:			
HIV Prevention Activities - Health Department Based	93.940	N/A	65,754
		3771-02/3771-03/3778-	
HIV Care Formula Grants	93.917	02/3778-	321,215
HIV Care Formula Grants	93.917	03/3723-02/3723-03	198,659
HIV Care Formula Grants	93.917	4062-01/4062-02	<u>166,992</u>
			<u>686,866</u>
Passed through New York City Department of Health and Mental Hygiene:			
Immunization Cooperative Agreements	93.268	Not Available	<u>490,331</u>
Passed through the Family Health Center:			
Community Programs to Improve Minority Health Grant Program	93.137	Not Available	<u>31,001</u>
Passed through Bronx District Public Health Office:			
Teenage Pregnancy Prevention Program	93.297	Not Available	<u>50,000</u>
Passed through North Shore University Hospital:			
Coordinated Services and Access to Research for Women, Infants, Children and Youth	93.153	Not Available	<u>603</u>
Passed through Family Health International :			
Allergy, Immunology and Transplantation Research	93.855	Not Available	<u>61,604</u>
Total Federal awards - U.S. Department of Health and Human Services			<u>\$ 9,529,582</u>

See Notes to Schedule of Expenditures of Federal Awards.

## Community Healthcare Network, Inc.

### Notes to Schedule of Expenditures of Federal Awards

**Note 1 - Basis of presentation:**

The accompanying schedule of expenditures of Federal awards presents the activities in all Federal awards of Community Healthcare Network, Inc. ("CHN"). All financial assistance received directly from the Federal agencies, as well as financial assistance passed through other governmental agencies or nonprofit organizations, is included on the schedule.

**Note 2 - Basis of accounting:**

The accompanying schedule of expenditures of Federal awards is presented using the accrual basis of accounting. The information in the schedule is presented in accordance with the requirements of OMB Circular A-133, *Audit of States, Local Governments, and Non-Profit Organizations*. The amounts reported in the schedule as expenditures may differ from certain financial reports submitted to Federal funding agencies due to those reports being submitted on either a cash or modified accrual basis of accounting.

**Note 3 - Subrecipients:**

Of the Federal expenditures presented in this schedule, CHN provided no Federal awards to subrecipients.

**Note 4 - Nonmonetary assistance:**

Donated and nonmonetary assistance is reported in the schedule at the fair value of the vaccinations received. The total federal share of vaccinations distributed by the center amounted to \$490,331 and is included in the statement of activities and changes in net assets. It is also included in the schedule of expenditures of federal awards.

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

To the Board of Directors  
Community Healthcare Network, 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 financial statements of Community Healthcare Network, Inc. ("CHN"), which comprise the statement of financial position as of December 31, 2012, and the related statements of activities and changes in net assets, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated August 14, 2013.

Internal Control over Financial Reporting

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

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

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

## Compliance and Other Matters

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

## Purpose of this Report

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

A handwritten signature in cursive script that reads "CohnReznick LLP".

New York, New York  
August 14, 2013

Independent Auditor's Report on Compliance for Each Major  
Federal Program and Report on Internal Control Over  
Compliance in Accordance with OMB Circular A-133

To the Board of Directors  
Community Healthcare Network, Inc.

Report on Compliance for Each Major Federal Program

We have audited Community Healthcare Network, Inc.'s ("CHN") compliance with the types of compliance requirements described in the OMB Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of CHN's major Federal programs for the year ended December 31, 2012. CHN's major Federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of CHN's major Federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes, examining, on a test basis, evidence about CHN'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 CHN's compliance.

Opinion on Each Major Federal Program

In our opinion, CHN complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the year ended December 31, 2012.

## Report on Internal Control Over Compliance

Management of CHN 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 CHN's internal control over compliance with the types of requirements that could have a direct and material effect on each major Federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major Federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of CHN's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



New York, New York  
August 14, 2013

**Community Healthcare Network, Inc.**

**Schedule of Findings and Questioned Costs  
Year Ended December 31, 2012**

**Section I - Summary of Auditor's Results:**

Financial Statements:

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified?  yes  no
- Significant deficiency(ies) identified?  yes  none reported

Noncompliance material to financial statements noted?  yes  no

Federal Awards:

Internal control over major programs:

- Material weakness(es) identified?  yes  no
- Significant deficiency(ies) identified?  yes  none reported

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?  yes  no

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program</u>
93.224	United States Department of Health and Human Services: Health Center Cluster: Consolidated Health Centers Affordable Care Act (ACA) Grants for New and Expanded Services under the Health Center Program ARRA - Grants to Health Center Programs: Facility Improvement Program
93.527	
93.703	

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

Auditee qualified as low-risk auditee?  yes  no

**Community Healthcare Network, Inc.**

**Schedule of Findings and Questioned Costs  
Year Ended December 31, 2012**

**Section II - Financial Statement Findings:**

None

**Section III - Federal Award Findings and Questioned Costs:**

None

**Community Healthcare Network, Inc.**

**Schedule of Prior Year's Findings  
Year Ended December 31, 2012**

There were no prior audit findings.