

COMMUNITY HEALTH CENTER, INC.

**Consolidated Financial Statements
and Supplementary Information
with Independent Auditor's Report**

June 30, 2014 and 2013

COMMUNITY HEALTH CENTER, INC.

Table of Contents

| | <u>Page</u> |
|---|-------------|
| INDEPENDENT AUDITOR'S REPORT | 1 |
| FINANCIAL STATEMENTS | |
| Consolidated Statements of Financial Position | 3 |
| Consolidated Statements of Operations and Changes in Net Assets | 4 |
| Consolidated Statements of Cash Flows | 5 |
| Notes to Consolidated Financial Statements | 6 |
| SUPPLEMENTARY INFORMATION | |
| Schedule of Expenditures of Federal Awards | 12 |
| Notes to the Schedule of Expenditures of Federal Awards | 13 |
| Schedule of Expenditures of State Financial Assistance | 14 |
| Notes to the Schedule of Expenditures of State Financial Assistance | 15 |
| FEDERAL SUPPLEMENTARY REPORTS | |
| 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 <i>Government Auditing Standards</i> | 16 |
| Independent Auditor's Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133 | 18 |
| Schedule of Findings and Questioned Costs | 20 |
| STATE SUPPLEMENTARY REPORTS | |
| Independent Auditor's Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance With the State Single Audit Act | 22 |
| Schedule of Findings and Questioned Costs | 24 |
| Summary Schedule of Prior Audit Findings | 26 |

INDEPENDENT AUDITOR'S REPORT



GUILMARTIN ▪ DIPIRO ▪ SOKOLOWSKI LLC
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

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. (a nonprofit organization), and affiliated entities which comprise the consolidated statements of financial position as of June 30, 2014 and 2013, and the related consolidated statements of operations and changes in net assets and cash flows for the years 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 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits 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 judgement, 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Community Health Center, Inc. and affiliated entities as of June 30, 2014 and 2013, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 27, 2014, 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 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 Community Health Center, Inc.'s internal control over financial reporting and compliance.

Guilmina Tri, DiPiro + Sokolowski LLC

Middletown, Connecticut

October 27, 2014

FINANCIAL STATEMENTS

COMMUNITY HEALTH CENTER, INC.

Consolidated Statements of Financial Position

June 30, 2014 and 2013

Assets

| | <u>2014</u> | <u>2013</u> |
|--|--------------------------|--------------------------|
| Current assets: | | |
| Cash and cash equivalents | \$ 7,520,578 | \$ 5,349,749 |
| Certificates of deposit | 564,274 | 563,246 |
| Investments | 2,492,311 | 2,235,862 |
| Receivables: | | |
| Patient receivables: | | |
| Net of allowance for doubtful accounts of \$2,794,841 in 2014 and \$1,633,140 in 2013 | 5,696,582 | 4,182,426 |
| Grant and other receivables | <u>1,784,486</u> | <u>1,030,093</u> |
| Total receivables | 7,481,068 | 5,212,519 |
| Prepaid expenses | <u>708,989</u> | <u>690,611</u> |
| Total current assets | <u>18,767,220</u> | <u>14,051,987</u> |
| Property and equipment, net | 41,089,561 | 43,987,335 |
| Other assets | <u>460,527</u> | <u>391,925</u> |
| Total assets | <u>\$ 60,317,308</u> | <u>\$ 58,431,247</u> |

Liabilities and Net Assets

| | | |
|--|--------------------------|--------------------------|
| Current liabilities: | | |
| Accounts payable | \$ 2,559,514 | \$ 2,617,806 |
| Accrued expenses | 5,782,488 | 4,581,289 |
| Deferred income | 355,744 | 509,722 |
| Current portion of long-term debt | <u>2,533,627</u> | <u>274,895</u> |
| Total current liabilities | <u>11,231,373</u> | <u>7,983,712</u> |
| Long-term debt, net of current portion | <u>6,510,952</u> | 9,044,578 |
| Total liabilities | <u>17,742,325</u> | <u>17,028,290</u> |
| Net assets: | | |
| Unrestricted | <u>42,574,983</u> | 41,402,957 |
| Total net assets | <u>42,574,983</u> | <u>41,402,957</u> |
| Total liabilities and net assets | <u>\$ 60,317,308</u> | <u>\$ 58,431,247</u> |

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

COMMUNITY HEALTH CENTER, INC.

Consolidated Statements of Operations and Changes in Net Assets

For the years ended June 30, 2014 and 2013

| | <u>2014</u> | <u>2013</u> |
|--|----------------------|----------------------|
| Operations: | | |
| Revenues: | | |
| Patient fees | \$ 62,993,085 | \$ 55,828,160 |
| Grant income | 10,743,413 | 10,493,065 |
| State and federal bonding income | - | 659,936 |
| Donated vaccines | 1,405,384 | 3,738,399 |
| Meaningful use | 574,400 | 810,000 |
| Other income | 359,840 | 332,520 |
| Investment income and realized gains | 352,774 | 200,995 |
| Rental income | <u>27,918</u> | <u>33,505</u> |
| Total revenues | <u>76,456,814</u> | <u>72,096,580</u> |
| Expenditures: | | |
| Program services: | | |
| Medical costs | 35,290,670 | 35,770,438 |
| Dental costs | 8,380,711 | 9,025,523 |
| Mental health costs | 6,916,451 | 6,591,327 |
| School based services | 5,041,431 | 4,174,844 |
| Community based services | <u>2,914,697</u> | <u>2,663,005</u> |
| Total operating expenses | <u>58,543,960</u> | <u>58,225,137</u> |
| Management and general | <u>16,740,828</u> | <u>14,793,795</u> |
| Total expenditures | <u>75,284,788</u> | <u>73,018,932</u> |
| Operating revenues over (under) expenses | <u>1,172,026</u> | <u>(922,352)</u> |
| Unrestricted net assets, beginning of year | <u>41,402,957</u> | <u>42,325,309</u> |
| Unrestricted net assets, end of year | <u>\$ 42,574,983</u> | <u>\$ 41,402,957</u> |

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

COMMUNITY HEALTH CENTER, INC.

Consolidated Statements of Cash Flows

For the years ended June 30, 2014 and 2013

| | <u>2014</u> | <u>2013</u> |
|--|---------------------|---------------------|
| Cash flows from operating activities: | | |
| Net income (loss) | \$ <u>1,172,026</u> | \$ <u>(922,352)</u> |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities: | | |
| Depreciation | 3,756,441 | 3,327,847 |
| Unrealized/realized (gain) on securities transactions | (230,018) | (138,216) |
| (Increase) in certificates of deposit | (1,028) | - |
| (Increase) in patients receivable | (1,514,156) | (409,832) |
| (Increase) decrease in grants and other receivables | (754,393) | 513,288 |
| (Increase) in prepaid assets | (18,378) | (187,879) |
| (Decrease) in accounts payable | (58,292) | (1,182,505) |
| Increase (decrease) in other accrued liabilities | 1,201,199 | (1,287,381) |
| (Decrease) in deferred income | (153,978) | (336,717) |
| Total adjustments | <u>2,227,397</u> | <u>298,605</u> |
| Net cash provided by (used in) operating activities | <u>3,399,423</u> | <u>(623,747)</u> |
| Cash flows from investing activities: | | |
| Decrease in restricted cash | - | 1,128,872 |
| (Increase) in other assets | (68,602) | - |
| Purchase of securities, net | (26,431) | (18,497) |
| Plant and equipment purchases | (858,667) | (3,468,872) |
| Net cash (used in) investing activities | <u>(953,700)</u> | <u>(2,358,497)</u> |
| Cash flows from financing activities: | | |
| Repayment of long-term debt | (274,894) | (483,063) |
| Net cash (used in) financing activities | <u>(274,894)</u> | <u>(483,063)</u> |
| Net increase (decrease) in cash and cash equivalents | 2,170,829 | (3,465,307) |
| Cash and cash equivalents, beginning of year | <u>5,349,749</u> | <u>8,815,056</u> |
| Cash and cash equivalents, end of year | <u>\$ 7,520,578</u> | <u>\$ 5,349,749</u> |

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

COMMUNITY HEALTH CENTER, INC.

Notes to Consolidated Financial Statements

June 30, 2014 and 2013

NOTE 1

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of activities

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 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. It's 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 and build healthy communities, CHCI sponsors programs such as its New Horizons Domestic Violence shelter, Vinnie's Jump and Jive, the Ryan White HIV program and a broad range of community activities from farmers markets to obesity prevention. With 130,000 active patients, over 630 staff, and state of the art facilities, CHCI is the health care home that works to keep patients, and communities, healthy.

CHC Realty, Inc. (Realty) 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.

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

Basis of presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting policies as accepted in the United States (referred to as GAAP) and follow the format required by the *Audits of Providers of Health Care Services* issued by the American Institute of Certified Public Accountants.

The consolidated financial statements include the financial statements of Community Health Center, Inc. and its affiliated entities, CHC Realty, Inc. and CHCI Media, Inc.

Change in presentation

Management reviews the format of the financial statements annually and may consolidate or show separately certain items they feel make presentation complete.

Income tax status

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).

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's informational returns for fiscal years ended after June 30, 2010 remain open to inspection by the Internal Revenue Service.

Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the certain reported amounts. Accordingly actual results could differ from those estimates.

Allowance for bad debts

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

COMMUNITY HEALTH CENTER, INC.

Notes to Consolidated Financial Statements

June 30, 2014 and 2013

Investments

Investments are stated at fair value. Unrealized gains and losses are included in the accompanying consolidated statements of operations and changes in net assets. Realized gains and losses on investments sold are determined on the average cost basis. Dividends and interest income are recorded on the accrual basis.

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 completed or terminated, assets purchased with grant funds must be returned to the funding agency, if requested.

Net assets - unrestricted

All of the Organization's unrestricted net assets are for general use by the corporation.

Evaluation of subsequent events

Management has evaluated subsequent events through October 27, 2014, the date on which the financial statements were available to be issued.

NOTE 2

CONCENTRATIONS

The Organization maintains their cash balances with various financial institutions. Such deposits at times have exceeded federal depository limits; however, the Organization believes their cash deposits are not subject to significant credit risk.

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.

NOTE 3

REVENUES

Net patient service revenue

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

Net patient service revenue is reported at the estimated net realizable amounts from patients, third party payers and others for services rendered.

Charity care

CHCI's charity care policy is to provide care to all patients regardless of their ability to pay. Charity care services are computed using a sliding fee scale based on patient income and family size. The amount of patient service revenue foregone under CHCI's charity care policy totaled \$85,584 and \$159,076 for the years ended June 30, 2014 and 2013, respectively. The cost of providing this charity care was \$8,127,026 and \$9,908,332 for the years ended June 30, 2014 and 2013, respectively. The amount of subsidy received for charity care services totaled \$5,943,806 and \$5,577,339 for the years ended June 30, 2014 and 2013, respectively.

CHCI has agreements that provide payments as described below.

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 84% and 88% of the Organization's net patient revenue for the fiscal years ended June 30, 2014 and 2013, respectively. Laws and regulations governing these programs are extremely complex and subject to interpretation. The Medicaid rates are based upon a base year rate rolled forward by inflation and other factors. Medicare reimbursement rates are set based upon mutually submitted cost reports and final Medicare reimbursement is subject to a year-end settlement.

COMMUNITY HEALTH CENTER, INC.

Notes to Consolidated Financial Statements

June 30, 2014 and 2013

Grants and contracts

Grants and contracts are agreements in which the grantor or contractor requires expenditures for the performance of specified activities. The Organization records their grant or contract revenue equal to the expenditure of funds in accordance with grant specification. Grant and contract receipts in excess of allowable expenditures are recorded 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.

NOTE 4

FAIR VALUE MEASUREMENTS

FASB ASC 820, *Fair Value Measurements*, governs the application of accounting principles generally accepted in the United States of America that require fair value measurements of CHCI's assets and liabilities. Fair value as defined in ASC 820 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. ASC 820 established a three tier hierarchy to maximize the use of observable market data and minimize the use of unobservable inputs and to establish classification of fair value measurements for disclosure purposes. Various inputs are used in determining the value of the financial instruments as noted below:

- *Level 1* - quoted prices in active markets for identical inputs.
- *Level 2* - other significant observable inputs.
- *Level 3* - significant unobservable inputs (including CHCI's own assumptions in determining fair value).

CHCI's additional financial instruments consist of cash and cash equivalents, receivables, property and equipment, accounts payable and accrued liabilities. These instruments approximate their fair values as of June 30, 2014 and 2013 due to their short-term nature.

NOTE 5

INVESTMENTS

All investments are available for sale and transfer to support Organization requirements (including Board designations) and presented on the financial statements at fair market value.

Generally accepted accounting principles have determined that short-term and long-term investments traded on the open market (individual stocks, ETF's and mutual funds) are determined by reference to quoted prices of identical

instruments generated by active market transactions and are considered to be level 1 transactions.

| | <u>Quoted Prices on Active Markets</u> | |
|--|--|--------------------|
| | <u>2014</u> | <u>2013</u> |
| U.S. stocks (or mutual funds of stocks) | \$1,427,363 | \$1,471,911 |
| U.S. bonds (or mutual funds of bonds) | 689,851 | 538,757 |
| International bonds (or mutual funds of bonds) | 108,964 | 89,811 |
| International stocks (or mutual funds of stocks) | <u>266,133</u> | <u>135,383</u> |
| | <u>\$2,492,311</u> | <u>\$2,235,862</u> |

NOTE 6

PROPERTY AND EQUIPMENT

Components of property and equipment are as follows:

| | <u>2014</u> | <u>2013</u> |
|---|----------------------|----------------------|
| Land and buildings | \$ 41,623,268 | \$ 40,965,015 |
| Leasehold improvements | 5,064,730 | 5,064,730 |
| Furniture and equipment | 16,542,007 | 15,638,206 |
| Capitalized leases | 126,273 | 126,273 |
| Construction in progress | <u>527,521</u> | <u>1,301,214</u> |
| | 63,883,799 | 63,095,438 |
| Less: accumulated depreciation and amortization | <u>(22,794,238)</u> | <u>(19,108,103)</u> |
| Total | <u>\$ 41,089,561</u> | <u>\$ 43,987,335</u> |

The financial statements reflect depreciation and amortization expense at June 30, 2014 and 2013 of \$3,756,441 and \$3,327,847, respectively.

NOTE 7

OTHER ASSETS

For fiscal year 2011, CHCI co-owned property at 623-625 Main Street, Middletown, Connecticut. CHCI followed the pooling of interest method of accounting for the property. The property was valued on the financial statements based on CHCI's 42% co-ownership interest in the depreciated cost of

COMMUNITY HEALTH CENTER, INC.

Notes to Consolidated Financial Statements

June 30, 2014 and 2013

Other assets, continued

the building, including improvements, plus the net assets of its leasing operations. Cash distributions from the leasing operation were included in miscellaneous income and the co-ownership investment is included in other assets as "investments in real estate."

In fiscal year 2012, CHCI purchased the remaining 58% and now fully owns the property at 623-625 Main Street, Middletown, Connecticut.

In 2003, CHCI entered into an agreement with the Middlesex Community Foundation to invest Health Center funds. For 2014 and 2013 this investment is included with other assets as "investments held by others."

Investments as other assets and their carrying values are summarized below:

| | |
|----------------------------|----------------------|
| Investments in real estate | \$ 38,791 |
| Investments held by others | 288,826 |
| Nonlisted securities | 132,458 |
| Limited partnership | <u>452</u> |
| Total other assets | <u>\$460,527</u> |

Assets measured at fair value on a recurring basis using significant unobservable inputs are reported as level 3 investment transactions. The nonlisted securities and limited partnership assets noted above are considered to be level 3.

NOTE 8

DEBT OBLIGATIONS

Debt obligations at June 30 consist of the following:

| | <u>2014</u> | <u>2013</u> |
|---|-------------|-------------|
| New Market Tax Credit Financing, Loan A, with an interest rate of 7.383%, due in 2041, secured by real estate located in Middletown, Connecticut. | \$4,594,659 | \$4,594,659 |

New Market Tax Credit Financing, Loan B, with an interest rate of 1%, due in 2041 with an accelerated repayment election at the option of the lender for 1% of the original financing, secured by real estate located in Middletown, Connecticut.

Mortgage payable with an interest rate of 3.25% (see below); maturing in December 2014 and collateralized by all physical property owned by CHCI.

Loan payable with an interest rate of 2.74%; maturing in October 2013 and collateralized by CHCI's business assets. This loan was paid off in fiscal year 2014.

Note payable with an interest rate of 4.50%; maturing in November 2015 and collateralized by CHCI's equipment.

| | | |
|-----------------------|---------------------|--------------------|
| | <u>56,993</u> | <u>95,484</u> |
| Total | 9,044,579 | 9,319,473 |
| Less: current portion | <u>(2,533,627)</u> | <u>(274,895)</u> |
| | <u>\$ 6,510,952</u> | <u>\$9,044,578</u> |

In order to fix the variable rate on the note payable to Bank of America, CHCI entered into an interest rate swap agreement to convert this debt from a variable interest rate to a fixed interest rate. CHCI does not issue or hold derivative contracts for speculative purposes.

COMMUNITY HEALTH CENTER, INC.

Notes to Consolidated Financial Statements

June 30, 2014 and 2013

Debt obligations, continued

Aggregate maturities of long-term borrowings over the next five years are as follows:

| <u>Year ended June 30:</u> | <u>Amount</u> |
|----------------------------|---------------|
| 2015 | \$2,533,627 |
| 2016 | 16,735 |
| 2017 | - |
| 2018 | - |
| 2019 | - |

The terms of certain financing agreements contain, among other provisions, requirements for maintaining defined levels of working capital, net worth, capital expenditures and various financial ratios, including debt to equity.

Line of credit

As of June 30, 2014 and 2013, CHCI had an unused line of credit for \$3,000,000 with Bank of America.

Interest expense was \$534,690 and \$566,260 for the years ended June 30, 2014 and 2013, respectively.

NOTE 9

LEASE OBLIGATIONS

Leased facilities

CHCI conducts some of its operations from leased facilities. Lease commitments include leases which expire at various dates through November 2021 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, 2014 minimum rental payments due under operating leases for facilities consist of the following:

| <u>Year ended June 30:</u> | <u>Amount</u> |
|----------------------------|---------------------------|
| 2015 | \$ 820,565 |
| 2016 | 572,158 |
| 2017 | 499,698 |
| 2018 | 323,794 |
| 2019 | 288,309 |
| Thereafter | <u>680,209</u> |
| Total | <u>\$3,184,733</u> |

Rent expense for the years ended June 30, 2014 and 2013 was \$1,105,218 and \$1,022,031, 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.

NOTE 10

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 are as follows:

| <u>Year</u> | <u>Funder</u> | <u>Location</u> | <u>Amount</u> |
|-------------|---------------|-----------------|---------------|
| 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 |

Additionally, CHCI received \$7,000,000 in bonding money for Main Street Middletown from DHHS in 2012 that is subject to rules, regulations and lien by the federal government.

COMMUNITY HEALTH CENTER, INC.

Notes to Consolidated Financial Statements

June 30, 2014 and 2013

NOTE 11

RELATED PARTY TRANSACTIONS

Co-ownership agreement

Effective September 30, 1988, CHCI entered into an agreement to purchase and co-own 42% of the real property located at 623-625 Main Street, Middletown, Connecticut. The purchase price was \$250,000 including \$175,000 for the previous owner to renovate the building to CHCI's specifications. In fiscal year 2011, CHCI leased the previous owner's 58% share of the property. In fiscal year 2013, CHCI purchased the remaining 58% and is now a 100% owner.

Rental of 635 Main Street, Middletown, Connecticut

CHCI leases the entire space at 635 Main Street, Middletown, Connecticut from Hildas Associates, a partnership of which CHCI holds a 41.5% interest. Management believes that CHCI's lease agreement for space with Hildas Associates is equivalent to an arms-length agreement between unrelated parties.

NOTE 12

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 \$619,616 and \$663,133 for the years ended June 30, 2014 and 2013, 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 \$41,000 and \$48,000 for the years ended June 30, 2014 and 2013, respectively.

NOTE 13

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, the Center maintains malpractice insurance under the Federal Tort Claims Act (FTCA). This coverage is applicable to the Center and their 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 policy without a monetary cap. As of June 30, 2014, two known malpractice claims have been asserted against the Center and it is management's opinion that they will be covered by the FTCA coverage.

SUPPLEMENTARY INFORMATION

COMMUNITY HEALTH CENTER, INC.

Schedule of Expenditures of Federal Awards

For the year ended June 30, 2014

| Federal Grantor Pass-through Grantor Program or Cluster Title | Federal CFDA Number | Pass-through Entity Identifying Number | Expenditures |
|--|---------------------------|--|---------------------|
| <u>U.S. Department of Health & Human Services</u> | | | |
| Bureau of Primary Health Care: | | | |
| Health Center Cluster | 93.224 | N/A | \$ 4,220,840 |
| SBHC Capital Program | 93.501 | N/A | 355,903 |
| HIV/AIDS Bureau: | | | |
| Early Intervention Services for HIV/AIDS Patients (A/K/A RWII) | 93.918 | N/A | 404,222 |
| Substance Abuse and Mental Health Services Administration: | | | |
| Teach BMT | 93.243 | N/A | 254,107 |
| Maternal and Child Health: | | | |
| Healthy Tomorrows Partnership for Children Program | 93.110 | H17MC26527 | 47,127 |
| Agency for Healthcare Research and Quality: | | | |
| National Collaborative for Innovation in Quality Management | 93.226 | 1U18HS020503 | 50,000 |
| Passed-through State of CT Department of Public Health: | | | |
| Vaccines (non-cash assistance) | 93.268 | unknown | 1,405,384 |
| Integrating Colorectal Cancer | 93.283 | 2012-0026-2 | 24,149 |
| Cardiovascular Risk Reduction | 93.283 | 2012-0065-3 | 11,000 |
| Breast and Cervical Cancer Screening | 93.919 | 2014-0026-2 | 41,221 |
| Ryan White I - Oasis - AIDS Healthcare and Support HCCS | 93.917 | 2013-0163 | 96,623 |
| AIDS Prevention Education Services, Ryan White Part II | 93.940 | 2013-0119 | 23,569 |
| Passed-through State of CT Department of Social Services: | | | |
| Safeguarding SBG | 93.667 | 083CHC-SBG-28 | 41,789 |
| MIECHV | 93.505 | 13DSS8301ET | 315,767 |
| Passed-through State of CT Department of Health and Addiction Services: | | | |
| Case Management | 93.150 | 05MHA2049AA | 52,692 |
| Passed-through City of Hartford: | | | |
| Ryan White I, Part A | 93.914 | HHS2012-02D & 39D | 10,922 |
| Passed-through National Association of Health Centers: | | | |
| Americorp | 94.006 | 10EDHMD002 | 136,500 |
| Passed-through University of California San Francisco: | | | |
| Regents Subcontract | 93.359 | unknown | 89,910 |
| Passed-through Senior Resources Agency on Aging: | | | |
| Dental Clinic | 93.044 | F-14-2 | 17,661 |
| Dental Clinic | 93.043 | F-14-2 | 25,174 |
| Passed-through South Central CT Area Agency on Aging: | | | |
| Medicares Senior Dental Program | 93.044 | C-045-12-N; C-045-13-N | 30,124 |
| Passed-through Southwestern CT Area Agency on Aging: | | | |
| Dental Clinic | 93.043 | 20857-10303 | 6,067 |
| Norwalk Smiles | 93.044 | 20835-10605 | 9,134 |
| Passed-through Chatham Health District: | | | |
| Disease Prevention and Control | 93.283 | unknown | 13,699 |
| Passed-through North Central CT Area Agency on Aging: | | | |
| Dental Services for the Elderly | 93.044 | 4160 | 7,000 |
| <u>U.S. Department of Justice</u> | | | |
| Violence Against Women Office: | | | |
| Stop Formula | 16.588 | 12VWCCADVCA | 5,984 |
| Passed-through the Connecticut Coalition Against Domestic Violence, Inc.: | | | |
| Victim's Advocate | 16.575 | 12060-OPM20350-55050 | 30,664 |
| Adult Advocate | 16.575 | 12060-OPM20350-55050 | 38,279 |
| Child Advocate | 16.588 | 11000-OPM20350-55050 | 11,744 |
| <u>U.S. Department of Housing and Urban Development</u> | | | |
| Passed-through City of New London, Connecticut: | | | |
| Community Development Block Grant | 14.218 | 221.6530-456-33.09 | <u>10,472</u> |
| Total | | | <u>\$ 7,787,727</u> |

See notes to schedule.

COMMUNITY HEALTH CENTER, INC.

Notes to the Schedule of Expenditures of Federal Awards

For the year ended June 30, 2014

NOTE 1

BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Community Health Center, Inc. under programs of the Federal government for the year ended June 30, 2014. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. 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 OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Pass-through entity identifying numbers are presented where available.

NOTE 3

INSURANCE

The expenditures reported in the attached schedule of expenditures of federal awards includes expenses incurred for fringe benefit type insurances, such as medical, dental and worker's compensation for employees working on the Federally funded grant programs, as specified in the grant agreements and grant budgets approved by the funding agency. Expenditures would also indirectly include general, liability, property, crime and bond or officers' and directors' insurance costs through the administrative allocation for each grant.

COMMUNITY HEALTH CENTER, INC.

Schedule of Expenditures of State Financial Assistance

For the year ended June 30, 2014

| <u>Grantor; Pass-Through Grantor; Program</u> | <u>State CORE - CT Number</u> | <u>Expenditures</u> |
|--|-------------------------------|---------------------|
| <u>Department of Public Health</u> | | |
| Uninsured - Preventive and Primary Care | 11000-DPH48500-16060 | 806,727 |
| School Based Health Clinics | 11000-DPH48500-17019 | 782,192 |
| Breast and Cervical Cancer Screening | 11000-DPH48500-12255 | 120,703 |
| Breast, Cervical and Colorectal Cancer Screening | 11000-DPH48500-30416 | 14,000 |
| AIDS Prevention Education Services, Ryan White Part II | 11000-DPH48500-12236 | 70,712 |
| AIDS Healthcare and Support HCCS | 11000-DPH48500-12236 | 11,203 |
| Passed-through City of New Britain School District: School Based Health Clinic - New Britain | 11000-DPH48500-17019 | 278,914 |
| <u>Department of Social Services</u> | | |
| Transitional Living Program | 11000-DSS6000-16149-10253 | 131,963 |
| Passed-through Children's Trust Fund Council: Nurturing Families | 11000-CTF94000-12042 | 212,186 |
| Passed-through Senior Resources Agency on Aging | 11000-DSS6000-16123 | 1,815 |
| Passed-through Connecticut Coalition Against Domestic Violence, Inc.: Shelter Services Program | 11000-DSS6000-16149-10254 | 364,861 |
| <u>Department of Children & Families</u> | | |
| Outpatient Psychiatric Clinic for Children | 11000-DCF91110-16024 | 223,724 |
| Treatment and Prevention of Child Abuse | 11000-DCF91100-16064 | 93,110 |
| Family Preservation Services | 11000-DCF91110-16111 | 95,982 |
| Health Assessment and Consultation | 11000-DCF91110-16008 | 36,144 |
| Passed-through Rushford: Care Manager | 11000-DCF91110-16141 | 64,880 |
| <u>Department of Mental Health and Addiction Services</u> | | |
| Case Management | 11000-DMHAS-16053 | 53,616 |
| <u>Judicial Branch</u> | | |
| Passed-through Connecticut Coalition Against Domestic Violence, Inc.: Victims Advocate | 11000-JUD95810-12047 | 17,791 |
| <u>Office of Policy Management</u> | | |
| Passed-through Connecticut Coalition Against Domestic Violence, Inc.: Child Advocate | 11000-OPM12251-55050 | 3,925 |
| Total State Financial Assistance | | <u>\$ 3,384,448</u> |

See notes to schedule.

COMMUNITY HEALTH CENTER, INC.

Notes to the Schedule of Expenditures of State Financial Assistance

For the year ended June 30, 2014

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, 2014. 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.

FEDERAL SUPPLEMENTARY REPORTS



GUILMARTIN ▪ DIPIRO ▪ SOKOLOWSKI LLC

CERTIFIED PUBLIC ACCOUNTANTS

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

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. (a nonprofit organization) and affiliated entities, which comprise the consolidated statement of financial position as of June 30, 2014, and the related consolidated statements of operations and changes in net assets and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated October 27, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the consolidated 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 consolidated 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 a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be a significant deficiency, 2014-01.

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*.

Community Health Center, Inc.'s Response to Findings

Community Health Center, Inc.'s response to the 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 the financial statements and, accordingly, we express no opinion on it.

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.

Guilmetti, DiPiro + Sokolowski LLC

Middletown, Connecticut
October 27, 2014



GUILMARTIN ▪ DIPIRO ▪ SOKOLOWSKI LLC

CERTIFIED PUBLIC ACCOUNTANTS

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

The Board of Directors
Community Health Center, Inc.:

Report on Compliance for Each Major Federal Program

We have audited Community Health Center, Inc.'s and affiliated entities' 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 Community Health Center, Inc.'s major federal programs for the year ended June 30, 2014. Community Health Center, Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of 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 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 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, 2014.

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 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 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. 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. However, we identified a certain deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2014-01, that we consider to be a significant deficiency.

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.

Guilmini, DiPiro & Sokolowski LLC

Middletown, Connecticut
October 27, 2014

COMMUNITY HEALTH CENTER, INC.

Schedule of Findings and Questioned Costs

For the year ended June 30, 2014

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's opinion 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 opinion 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</u> | <u>Name of Federal Program or Cluster</u> |
|--------------------|--|
| | <u>U.S. Department of Health & Human Services:</u> |
| | Health Resources and Service Administration: |
| 93.224 | Health Center Cluster |
| 93.501 | SBHC Capital Program |
| 93.505 | MIECHV |
| 93.359 | Regents Subcontract |
| 93.243 | Teach BMT |

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

Auditee qualified as low-risk auditee? Yes No

SECTION II - FINANCIAL STATEMENT FINDINGS

Finding # 2014-01:

Grantor: All Major Programs
Pass-through Entity: None
Federal CFDA: All Major Programs

Condition and Criteria

Grant expense allocations should be properly allocated to their respective grants. In several instances, expenditures for grant related purposes were misallocated to incorrect grant cost centers.

Questioned Costs

The grant expenditures were manually adjusted at year end.

COMMUNITY HEALTH CENTER, INC.

Schedule of Findings and Questioned Costs, Continued

Effect

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

Cause

Manual grant allocation processing caused misallocations which resulted in the Organization preparing a large volume of correcting journal entries to grants.

Context

As noted in the prior year, the system conversion caused the time allocation to be done manually. Given the large volume of data entry, misallocations occurred.

Auditor's Recommendation

The Organization should develop a grant module or purchase grant software to interface with purchasing and payroll systems and more appropriately track the allocations. This should reduce the risk of human error when allocating grant expenditures to the proper accounts.

Views of Responsible Officials and Planned Corrective Actions

Manual grant allocation processing resulted in a large number of adjusting entries being posted at year end. We have developed an internal system in Access which went into effect July 1, 2014. Utilizing this system has automated most of the grant allocation processing, resulting in greater accuracy and timely posting of grant allocations on a monthly basis.

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Yes - see above.

STATE SUPPLEMENTARY REPORTS



GUILMARTIN ▪ DIPIRO ▪ SOKOLOWSKI LLC

CERTIFIED PUBLIC ACCOUNTANTS

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT
COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH 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 and affiliated entities' 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, 2014. Community Health Center, Inc.'s major state 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 state programs.

Auditor's 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, 2014.

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 a certain deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2014-01, 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 State Single Audit Act. Accordingly, this report is not suitable for any other purpose.

Guilotta, DiPiro + Sokolowski LLC

Middletown, Connecticut
October 27, 2014

COMMUNITY HEALTH CENTER, INC.

Schedule of Findings and Questioned Costs

For the year ended June 30, 2014

1. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's opinion issued: Unmodified

Internal control over financial reporting:

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

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

Type of auditor's opinion 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

The following schedule reflects the major programs included in the audit:

| <u>State Grantor and Program</u> | <u>State CORE - CT Number</u> | <u>Expenditures</u> |
|--|-----------------------------------|---------------------|
| Department of Social Services: | | |
| Passed-through Children's Trust Fund Council: | | |
| Nurturing Families | 11000-CTF94000-12042 | \$212,186 |
| Department of Children & Families: | | |
| Outpatient Psychiatric Clinic for Children | 11000-DCF91110-16024 | 223,724 |
| Treatment and Prevention of Child Abuse | 11000-DCF91100-16064 | 93,110 |
| Family Preservation Services | 11000-DCF91110-16111 | 95,982 |
| Health Assessment and Consultation | 11000-DCF91110-16008 | 36,144 |
| Department of Public Health: | | |
| Breast and Cervical Cancer Screening | 11000-DPH48500-12255 | 120,703 |
| School Based Health Clinics | 11000-DPH48500-17019 | 782,192 |
| Passed-through City of New Britain School District: | | |
| School Based Health Clinic - New Britain | 11000-DPH48500-17019 | 278,914 |
| Dollar threshold used to distinguish between type A and type B programs: | | \$200,000 |

COMMUNITY HEALTH CENTER, INC.

Schedule of Findings and Questioned Costs, Continued

2. FINANCIAL STATEMENT FINDINGS

Finding # 2014-01:

Grantor: All Major Programs

Pass-through Entity: None

State Grant Program CORE-CT Number: All Major Programs

Criteria

Grant expense allocations should be properly allocated to their respective grants.

Condition

In several instances, expenditures for grant related purposes were misallocated to incorrect grant cost centers.

Questioned Costs

The grant expenditures were manually adjusted at year end.

Context

As noted in the prior year, the system conversion caused the time allocation to be done manually. Given the large volume of data entry, misallocations occurred.

Effect

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

Cause

Manual grant allocation processing caused misallocations which resulted in the Organization preparing a large volume of correcting journal entries to grants.

Recommendation

The Organization should develop a grant module or purchase grant software to interface with purchasing and payroll systems and more appropriately track the allocations. This should reduce the risk of human error when allocating grant expenditures to the proper accounts.

Views of Responsible Officials and Planned Corrective Actions

Manual grant allocation processing resulted in a large number of adjusting entries being posted at year end. We have developed an internal system in Access which went into effect July 1, 2014. Utilizing this system has automated most of the grant allocation processing, resulting in greater accuracy and timely posting of grant allocations on a monthly basis.

3. STATE FINANCIAL ASSISTANCE FINDINGS AND QUESTIONED COSTS

Yes - see above.

COMMUNITY HEALTH CENTER, INC.

Summary Schedule of Prior Audit Findings

For the year ended June 30, 2014

Finding No. 2013-01

Condition

Grant funds were reported as spent on providers who did not have encounters at school based health clinics during the year.

Current Status

Corrective action is in process. See also Finding No. 2014-01.

Planned Corrective Action

Manual grant allocation processing resulted in a large number of adjusting entries being posted at year end. We have developed an internal system in Access which went into effect July 1, 2014. Utilizing this system has automated most of the grant allocation processing, resulting in greater accuracy and timely posting of grant allocations on a monthly basis.

Finding No. 2013-02

Condition

Grant reports did not match the grantee's accounting records.

Current Status

Nothing noted in testing during fiscal year 2014.