

**COMMUNITY HEALTH NET**  
**AUDITED FINANCIAL STATEMENTS**  
**JUNE 30, 2012**

**COMMUNITY HEALTH NET**  
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**June 30, 2012**

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FELIX & GLOEKLER, P.C.

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CERTIFIED PUBLIC ACCOUNTANTS

2306 Peninsula Drive • Erie, Pennsylvania 16506

### **Independent Auditors' Report**

Board of Directors  
Community Health Net  
Erie, Pennsylvania

We have audited the accompanying statement of financial position of Community Health Net (a non-profit organization) as of June 30, 2012, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Community Health Net as of June 30, 2012, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 15, 2012 on our consideration of Community Health Net'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* and should be considered in assessing the results of our audit.

**Independent Auditors' Report**  
**(Continued)**

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 basic 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.

*Felix and Gloekler, P.C.*

Felix and Gloekler, P.C.

November 15, 2012  
Erie, Pennsylvania

**COMMUNITY HEALTH NET**  
**Statement of Financial Position**  
**June 30, 2012**

**ASSETS**

Current Assets

Cash and cash equivalents	\$ 69,450
Patient receivables, net	1,875,476
State wrap grant receivable	113,612
Other grants receivable	16,632
Pharmacy inventory	77,386
Prepaid expenses and other current assets	45,016
Total Current Assets	<u>2,197,572</u>

Non-Current Assets

Land	174,383
Construction in progress	34,755
Furniture and equipment	2,166,560
Building and improvements	2,019,313
Leasehold improvements	10,000
Less: Accumulated depreciation	<u>(2,275,679)</u>
Total Non-Current Assets	<u>2,129,332</u>

Total Assets	<u><u>\$ 4,326,904</u></u>
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**LIABILITIES**

Current Liabilities

Accrued payroll and payroll liabilities	\$ 540,601
Accounts payable	509,867
Unearned grant revenue	284,867
Line of credit	310,693
Note payable - current portion	46,038
Total Current Liabilities	<u>1,692,066</u>

Non-Current Liabilities

Note payable	<u>59,019</u>
Total Non-Current Liabilities	<u>59,019</u>

Total Liabilities	<u>1,751,085</u>
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**NET ASSETS**

Unrestricted

Operations	516,894
Invested in fixed assets, net of related debt	2,024,275
Temporarily restricted	34,650
Total Net Assets	<u>2,575,819</u>

Total Liabilities and Net Assets	<u><u>\$ 4,326,904</u></u>
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The accompanying notes are an integral part of these financial statements.

**COMMUNITY HEALTH NET**  
**Statement of Activities**  
**For the Year Ended June 30, 2012**

Unrestricted Net Assets	
Revenues and Other Support	
Grant revenue	\$ 1,888,136
Net patient service revenue	8,877,253
State wrap funding	468,747
Other revenue	<u>229,253</u>
Total Revenues	<u>11,463,389</u>
Expenses	
Salaries, wages and taxes	6,431,394
Contracted services	773,347
Employee benefits	987,393
Supplies expense	1,271,858
Equipment maintenance and rental	194,680
Occupancy	439,716
Insurance	102,735
Depreciation and amortization	315,533
Bad debt expense	1,322,190
Other expenses	<u>227,066</u>
Total Expenses	<u>12,065,912</u>
Change in Net Assets - Unrestricted Net Assets	<u>(602,523)</u>
Temporarily Restricted Net Assets	
Contributions	<u>1,000</u>
Change in Net Assets - Temporarily Restricted Net Assets	<u>1,000</u>
Total Change in Net Assets	(601,523)
Net Assets, Beginning of Year	<u>3,177,342</u>
Net Assets, End of Year	<u><u>\$ 2,575,819</u></u>

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

**COMMUNITY HEALTH NET**  
**Statement of Cash Flows**  
**For the Year Ended June 30, 2012**

Cash Flow Provided By (Used By) Operating Activities:	
Change in net assets	\$ (601,523)
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:	
Depreciation and amortization	315,533
Change in operating assets and liabilities (using) providing cash:	
Patient receivable, net	(746,236)
Other receivables	207,812
Pharmacy inventory	(22,415)
Prepaid expenses and other current assets	212,394
Accrued payroll and payroll liabilities	(106,676)
Accounts payable	257,658
Unearned grant revenue	(29,133)
	<hr/>
Net Cash Flow Provided By (Used By) Operating Activities	(512,586)
	<hr/>
Cash Flows Provided By (Used By) Investing Activities:	
Purchase of property and equipment	(103,363)
	<hr/>
Net Cash Flow (Used By) Investing Activities	(103,363)
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Cash Flows Provided By (Used By) Financing Activities:	
Line of credit proceeds	140,693
Line of credit principal payments	(30,000)
Repayments of note principal	(44,294)
	<hr/>
Net Cash Flows Used By Financing Activities	66,399
	<hr/>
Net change in cash and cash equivalents	(549,550)
	<hr/>
Cash and Cash Equivalents at Beginning of Year	619,000
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Cash and Cash Equivalents at End of Year	\$ 69,450
	<hr/> <hr/>
Supplemental Disclosures:	
Interest paid	\$ 18,649
	<hr/> <hr/>

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

**COMMUNITY HEALTH NET**  
**Notes to Financial Statements**  
**June 30, 2012**

**NOTE 1- NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES**

**A. Organization and Nature of Activities**

Community Health Net (Organization) is organized exclusively for charitable purposes to establish, implement, and maintain a comprehensive plan and program for the delivery of primary health services to the medically indigent, medically needy, and other persons in the City and County of Erie.

**B. Basis of Presentation**

Community Health Net reports information regarding its financial position and activities according to the three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Unrestricted net assets are net assets that are not subject to donor-imposed stipulations. Temporarily restricted net assets are net assets subject to donor-imposed stipulations that may, or will, be met either by actions of Community Health Net and/or passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions. Restricted contributions are reported as increases in unrestricted net assets if the restrictions are met in the reporting period. Permanently restricted net assets are net assets subject to donor-imposed stipulations that will be maintained permanently by Community Health Net. At June 30, 2012, the Organization had \$34,650 temporarily restricted net assets to be used for future building renovations.

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles. Net assets and revenues, expenses, and gains and losses are classified based on the existence or absence of donor-imposed restrictions.

**C. Grant Revenue**

Grant revenue was received primarily from the Department of Health and Human Services to fund operating expenses, except depreciation, interest, and other specifically unallowable expenses.

**D. Net Patient Service Revenue and Accounts Receivable**

The Organization has agreements with third-party payors that provide for payments to the Organization at amounts different from its established rates. A summary of the principal payment arrangements with major third-party payors follows:

NOTE 1- NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED)

**Medical Assistance:** Patient services rendered to Medical Assistance beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification in the system that is based on clinical, diagnostic and other factors. The Organization is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the Organization. The Organization's Medical Assistance cost reports have been settled by the Medical Assistance program through June 30, 2009.

**Medicare:** Patient services related to Medicare beneficiaries are paid based on a cost reimbursement methodology subject to various limitations. The Organization is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Organization and settlement by the Commonwealth of Pennsylvania. The Organization's Medicare cost reports have been settled by the Commonwealth of Pennsylvania through June 30, 2009.

Revenue received under agreements with third-party payors is subject to audit and retroactive adjustment.

The Organization has also entered into payment agreements with certain commercial insurance carriers and health maintenance organizations. The basis for payment to the Organization under these agreements includes discounts from established charges and capitation payments. The Organization recognized \$227,785 in capitation revenue in the year ended June 30, 2012. At June 30, 2012, the Organization's contractual allowances were \$245,086.

The Organization uses the allowance method to determine uncollectible receivables. The allowance is based on prior years' experience and management's analysis of specific receivables. At June 30, 2012, the allowance was \$2,300,501. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to the applicable receivable.

E. Property and Equipment

Buildings and improvements, leasehold improvements, and furniture and equipment purchased by Community Health Net are recorded at cost. Purchases exceeding \$500 are capitalized. Property and equipment are depreciated using the straight-line method over their estimated useful lives ranging from three to twenty years. Expenditures for maintenance, repairs, and minor renewals are charged against income as incurred.

F. Malpractice Costs

The Organization carries malpractice insurance on a claims-made basis. The Organization estimates its liability for incurred, but not reported, claims each year and has concluded that no liability exists at June 30, 2012.

NOTE 1- NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED)

G. Income Taxes

Community Health Net is a non-profit organization that is exempt from income taxes under Internal Revenue Code Section 501(c)(3) and, therefore, has made no provision for income taxes.

In June, 2006, the Financial Accounting Standards Board issued ASC 740-10 (formerly known as FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes), which prescribed a comprehensive model for how an organization should measure, recognize, present, and disclose in its financial statements uncertain tax positions that an organization has taken or expects to take on a tax return. The Organization has adopted ASC 740-10 as of July 1, 2010. There was no impact to the Organization's financial statements as a result of the implementation of ASC 740-10.

The Organization's Form 990, *Return of Organization Exempt from Income Tax*, for the years ending 2010, 2011, and 2012 are subject to examination by the IRS, generally for three years after they were filed.

H. Charity Care

The Organization, by its mission, accepts all patients regardless of their ability to pay. Charity care represents services for which no payment is anticipated. The financial statements do not include a provision for this care.

I. Cash and Cash Equivalents

For purposes of the statement of cash flows, Community Health Net considers all cash and other highly liquid investments with initial maturities of three months or less to be cash equivalent.

J. Pharmacy Inventory

The pharmacy inventory is valued at cost on the first-in, first-out method.

K. Estimates

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

NOTE 1- NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED)

L. Compensated Absences

Employees and physicians earn up to 120 or 160 hours, respectively, of vacation time each year. At June 30, 2012, the Organization had a liability of \$365,332 relating to unused vacation time.

Employees also earn personal and sick time. Employees are not paid for unused time and, therefore, there is no liability recognized in these financial statements.

M. Contracts

The Organization has entered into several contracts with medical and dental service providers. These contracts are typically for three years with an automatic renewal of three additional years.

NOTE 2 - CONCENTRATION OF CREDIT RISKS

Community Health Net maintains its cash and cash equivalent balances at one financial institution located in Northwestern Pennsylvania which, at times, may exceed federally insured limits. These balances are insured by the Federal Deposit Insurance Corporation up to \$250,000. Community Health Net has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash. At June 30, 2012, the carrying value was \$69,450 and the bank balance of deposits was \$92,481, all of which was covered by FDIC insurance.

The Organization grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor arrangements primarily with Medicare, Medical Assistance, various commercial insurance companies, and various Managed Care Organizations.

NOTE 3 - NOTE PAYABLE

Note payable consists of the following at June 30, 2012:

\$224,636 term note with a local financial institution, bearing interest at 5.5%, secured by all assets of the Organization, due in monthly payments of \$4,299, plus interest, through December, 2014.	<u>\$ 105,057</u>
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### NOTE 3 - NOTE PAYABLE (CONTINUED)

The future minimum payments are as follows:

<u>Fiscal Year Ending June 30,</u>	
2013	\$ 46,038
2014	48,635
2015	<u>10,384</u>
	<u>\$ 105,057</u>

### NOTE 4 - DEFINED CONTRIBUTION PLAN

The Organization sponsors a defined contribution plan covering substantially all employees who met a minimum hours of service requirement. Eligible employees may contribute up to 15% of their compensation to the Plan. The Organization, at its discretion, may match employee contributions at the rate of \$.25 on the dollar, up to a maximum of 4% of the employees' compensation.

Effective June 30, 2000, the Plan was amended to change the maximum employee contribution to be based on maximum amounts established by the Internal Revenue Service each year. The employer contribution will be an additional discretionary amount as determined by the Board, up to a maximum of \$24,000 (as adjusted for inflation) per participant. The Organization did not make a pension contribution for the year ended June 30, 2012.

### NOTE 5 - LINE OF CREDIT

At June 30, 2011, Community Health Net had a \$350,000 line of credit with a financial institution with an interest rate of 4.25%. As of June 30, 2012, \$310,693 has been drawn down.

### NOTE 6 - RISK MANAGEMENT

The Organization is subject to certain legal proceedings and claims arising in the ordinary course of business. After consultation with its solicitor, the Organization believes that the adverse outcome, if any, will not have a material effect on the Organization's financial position. The Organization carries commercial insurance for risk management.

## NOTE 7 - FUNCTIONAL EXPENSES

During the year, the Organization expended the following functional expenses:

	<u>Program Services</u>	<u>Administrative and General</u>	<u>Total</u>
Salaries, wages and taxes	\$ 5,496,091	\$ 935,303	\$ 6,431,394
Contracted services	681,158	92,189	773,347
Employee benefits	815,225	172,168	987,393
Supplies expense	1,236,267	35,591	1,271,858
Equipment maintenance and rental	71,752	122,928	194,680
Occupancy	325,613	114,103	439,716
Insurance	29,559	73,176	102,735
Depreciation and amortization	250,262	65,271	315,533
Bad debt expense	1,322,190	-	1,322,190
Other expenses	117,177	109,889	227,066
	<u>\$10,345,294</u>	<u>\$ 1,720,618</u>	<u>\$12,065,912</u>

## NOTE 8 - EVALUATION OF SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through November 15, 2012, the date which the financial statements were available to be issued.

**COMMUNITY HEALTH NET**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended June 30, 2012**

<u>Federal Grantor/Program Title</u>	<u>Source Code</u>	<u>Federal CFDA Number</u>	<u>Contract Period</u>	<u>Contract Number</u>	<u>Federal Expenditures</u>
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>					
Consolidated Health Centers	D	93.224	6/1/11-5/31/12	5H80CS00523-10-00	\$ 1,153,043
Consolidated Health Centers	D	93.224	6/1/12-5/31/13	5H80CS00523-11-00	115,247
Total Consolidated Health Center Programs					<u>1,268,290</u>
Outpatient Early Intervention Services to HIV Disease	D	93.918	4/1/11-3/31/12	H76HA00715-10-00	166,663
Outpatient Early Intervention Services to HIV Disease	D	93.918	4/1/12-3/31/13	H76HA00715-11-00	50,001
Total Early Intervention Services to HIV Disease					<u>216,664</u>
Affordable Care Act Grants for School-Based Health Centers Capital Program	D	93.501	7/1/11-6/30/13	C12CS21836-01-00	<u>19,738</u>
Total U.S. Department of Health and Human Services					<u>1,504,692</u>
Total Expenditures of Federal Awards					<u>\$ 1,504,692</u>

The accompanying notes are an integral part of this schedule.

**COMMUNITY HEALTH NET**  
**Note to the Schedule of Expenditures of Federal Awards**  
**For the Year Ended June 30, 2012**

NOTE 1 - BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal grant activity of Community Health Net under programs of the federal government for the year ended June 30, 2012. The information in this Schedule is presented in accordance with the requirements of the Office of Management and Budget (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 Net, some amounts presented in this Schedule may differ from amounts presented or used in the preparation of the financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Contract numbers are presented where available.

NOTE 3 - LEGEND

D - Direct Funding  
I - Indirect Funding



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FELIX & GLOEKLER, P.C.

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CERTIFIED PUBLIC ACCOUNTANTS

2306 Peninsula Drive • Erie, Pennsylvania 16506

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

Board of Directors  
Community Health Net  
Erie, Pennsylvania

We have audited the financial statements of Community Health Net (a non-profit organization) as of and for the year ended June 30, 2012, and have issued our report thereon dated November 15, 2012. 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.

**Internal Control Over Financial Reporting**

Management of Community Health Net is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Community Health Net's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Community Health Net's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

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 on a timely basis.

Our consideration of internal control over financial reporting 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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we considered to be material weaknesses, as defined above.

**Independent Auditors' Report on Internal Control Over Financial  
Reporting and on Compliance and Other Matters Based on an Audit of Financial  
Statements Performed in Accordance With Government Auditing Standards  
(Continued)**

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Community Health Net'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*.

We noted certain matters that we reported to management of Community Health Net in a separate letter dated November 15, 2012.

This report is intended solely for the information and use of the audit committee, Board of Directors, management, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

*Felix and Gloekler, P.C.*

Felix and Gloekler, P.C.

November 15, 2012  
Erie, Pennsylvania



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FELIX & GLOEKLER, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

2306 Peninsula Drive • Erie, Pennsylvania 16506

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**Independent Auditors' 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**

Board of Directors  
Community Health Net  
Erie, Pennsylvania

Compliance

We have audited Community Health Net's compliance with the types of compliance requirements described in *OMB Circular A-133, Compliance Supplement* that could have a direct and material effect on each of Community Health Net's major federal programs for the year ended June 30, 2012. Community Health Net's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Community Health Net's management. Our responsibility is to express an opinion on Community Health Net's compliance based on our audit.

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 Net'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. Our audit does not provide a legal determination of Community Health Net's compliance with those requirements.

In our opinion, Community Health Net complied, in all material respects, with the 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, 2012.

**Independent Auditors' 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  
(Continued)**

Internal Control Over Compliance

Management of Community Health Net is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Community Health Net's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance 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 Net'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.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the audit committee, Board of Directors, management, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

*Felix and Gloekler, P.C.*

Felix and Gloekler, P.C.

November 15, 2012  
Erie, Pennsylvania

**COMMUNITY HEALTH NET**  
**Schedule of Findings and Questioned Costs**  
**For the Year Ended June 30, 2012**

1. Summary of auditors' results

- (i) Type of report issued on the financial statements:  
Unqualified opinion.
- (ii) Significant deficiencies that were material weaknesses in internal control: N/A
- (iii) The audit disclosed no noncompliance which is material to the financial statements.
- (iv) Significant deficiencies that are material weaknesses in internal control over major programs: N/A
- (v) Type of report issued on compliance for major programs:  
Unqualified opinion.
- (vi) The audit disclosed no audit findings which are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
- (vii) Major programs:  

Consolidated Health Centers                      CFDA # 93.224
- (viii) Dollar threshold used to distinguish between Type A and Type B programs: \$300,000.
- (ix) Community Health Net did qualify as a low-risk auditee.

2. Findings required to be reported in accordance with generally accepted government auditing standards

None

3. Findings and questioned costs for Federal awards

None

**COMMUNITY HEALTH NET**  
**Summary Schedule of Prior Audit Findings**  
**For the Year Ended June 30, 2012**

1. Prior significant deficiencies: None
2. Prior material noncompliance with provisions of laws, regulations, contracts, or grant agreements related to a major program: None
3. Known questioned costs greater than \$10,000: None

**COMMUNITY HEALTH NET**  
**List of Report Distribution**  
**For the Year Ended June 30, 2012**

The following is a listing of all agencies that the audit reports are distributed to:

1. United States Bureau of the Census