

# COMMUNITY HEALTH NET

**Financial Report  
June 30, 2014**



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## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Community Health Net  
Erie, Pennsylvania

### Report on the Financial Statements

We have audited the accompanying financial statements of Community Health Net (Organization), which comprise the statements of financial position as of June 30, 2014 and 2013, and the related 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 financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our 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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to 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 financial statements referred to above present fairly, in all material respects, the financial position of Community Health Net as of June 30, 2014 and 2013, and changes in its net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## Other Matters

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The 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*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the 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 February 4, 2015, 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* in considering Community Health Net's internal control over financial reporting and compliance.

*Arnett Carbis Toothman LLP*

Pittsburgh, Pennsylvania  
February 4, 2015

**COMMUNITY HEALTH NET**

**STATEMENTS OF FINANCIAL POSITION**  
**June 30, 2014 and 2013**

<b>ASSETS</b>	<b>2014</b>	<b>2013</b>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ -	\$ 125,414
Patient accounts receivable, net of estimated allowance for doubtful accounts 2014 \$702,790; 2013 \$579,755	<b>874,421</b>	946,159
Other accounts receivable	<b>355,389</b>	399,982
Pharmacy inventory	<b>119,104</b>	98,947
Prepaid expenses and other current assets	<b>46,556</b>	52,048
	<hr/>	<hr/>
<b>Total current assets</b>	<b>1,395,470</b>	1,622,550
	<hr/>	<hr/>
<b>PROPERTY AND EQUIPMENT</b>		
Land	<b>174,383</b>	174,383
Construction in progress	<b>259,689</b>	19,738
Furniture and equipment	<b>2,298,948</b>	2,245,520
Building and improvements	<b>2,033,550</b>	2,033,550
Leasehold improvements	<b>10,000</b>	10,000
	<hr/>	<hr/>
	<b>4,776,570</b>	4,483,191
Less: Accumulated depreciation	<b>(2,840,236)</b>	(2,575,330)
	<hr/>	<hr/>
<b>Property and equipment, net</b>	<b>1,936,334</b>	1,907,861
	<hr/>	<hr/>
<b>Total assets</b>	<b>\$ 3,331,804</b>	\$ 3,530,411
	<hr/>	<hr/>

See Notes to Financial Statements.

<b>LIABILITIES AND NET ASSETS</b>	<b>2014</b>	<b>2013</b>
<b>CURRENT LIABILITIES</b>		
Line of credit	\$ 340,693	\$ 340,693
Cash overdraft	89,294	-
Note payable, current	4,152	49,633
Accounts payable	697,830	749,898
Accrued payroll and payroll liabilities	343,547	404,180
Unearned grant revenue	-	159,723
Due to third-party payor	-	52,279
	<hr/>	<hr/>
<b>Total current liabilities</b>	<b>1,475,516</b>	<b>1,756,406</b>
	<hr/>	<hr/>
<b>NOTE PAYABLE</b>	-	8,605
	<hr/>	<hr/>
<b>NET ASSETS</b>		
Unrestricted	1,841,621	1,730,750
Temporarily restricted	14,667	34,650
	<hr/>	<hr/>
<b>Total net assets</b>	<b>1,856,288</b>	<b>1,765,400</b>
	<hr/>	<hr/>
<b>Total liabilities and net assets</b>	<b>\$ 3,331,804</b>	<b>\$ 3,530,411</b>
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**COMMUNITY HEALTH NET**

**STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS**  
**Years Ended June 30, 2014 and 2013**

	2014	2013
Unrestricted revenue:		
Net patient service revenue	\$ 8,158,688	\$ 7,848,086
Provision for bad debts	(642,366)	(578,147)
<b>Net patient service revenue less provision for bad debts</b>	<b>7,516,322</b>	<b>7,269,939</b>
Grant revenue	2,199,136	1,934,602
Other revenue	76,115	235,871
Net assets released from restrictions	34,650	-
<b>Total unrestricted revenue</b>	<b>9,826,223</b>	<b>9,440,412</b>
Expenses:		
Salaries, wages, and taxes	5,347,180	5,904,242
Supplies expense	1,616,081	1,436,742
Employee benefits	745,402	959,633
Contracted services	628,183	605,428
Occupancy	468,800	445,382
Depreciation	264,906	299,651
Equipment maintenance and rental	277,827	235,206
Insurance	75,735	118,471
Other expenses	291,238	246,076
<b>Total expenses</b>	<b>9,715,352</b>	<b>10,250,831</b>
<b>Change in unrestricted net assets</b>	<b>110,871</b>	<b>(810,419)</b>
Temporarily restricted net assets:		
Grant funds received	14,667	-
Net assets released from restrictions	(34,650)	-
<b>Change in temporarily restricted net assets</b>	<b>(19,983)</b>	<b>-</b>
<b>Change in net assets</b>	<b>90,888</b>	<b>(810,419)</b>
Net assets, beginning	1,765,400	2,575,819
Net assets, ending	<b>\$ 1,856,288</b>	<b>\$ 1,765,400</b>

See Notes to Financial Statements.

**COMMUNITY HEALTH NET**

**STATEMENTS OF CASH FLOWS**

**Years Ended June 30, 2014 and 2013**

	2014	2013
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 90,888	\$ (810,419)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	264,906	299,651
Bad debt expense	642,366	578,147
Changes in assets and liabilities:		
Patient accounts receivable	(570,628)	351,170
Other accounts receivable	44,593	(269,738)
Pharmacy inventory	(20,157)	(21,561)
Prepaid expenses and other current assets	5,492	(7,032)
Accounts payable	(52,068)	240,031
Accrued payroll and payroll liabilities	(60,633)	(136,421)
Unearned grant revenue	(159,723)	(83,332)
Due to third-party payor	(52,279)	10,467
<b>Net cash provided by operating activities</b>	<b>132,757</b>	<b>150,963</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of property and equipment	(293,379)	(78,180)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net proceeds from line of credit	-	30,000
Cash overdraft	89,294	-
Payments on note payable	(54,086)	(46,819)
<b>Net cash provided by (used in) financing activities</b>	<b>35,208</b>	<b>(16,819)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(125,414)</b>	<b>55,964</b>
Cash and cash equivalents:		
Beginning	125,414	69,450
Ending	\$ -	\$ 125,414
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Cash paid for interest	\$ 37,660	\$ 22,916

See Notes to Financial Statements.

## COMMUNITY HEALTH NET

### NOTES TO FINANCIAL STATEMENTS

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#### **Note 1. Organization and Summary of Significant Accounting Policies**

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.

**Basis of accounting:** The financial statements of the Organization have been prepared on the accrual basis of accounting, whereby revenue is recognized when earned and expenses are recorded when incurred.

**Use of estimates:** The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

**Cash and cash equivalents and deposit risk:** Cash and cash equivalents include assets with an original maturity of three months or less. The Organization maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The accounts are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to certain limits. The Organization has not experienced any losses in such accounts.

**Patient accounts receivable:** Patient accounts receivable are reported at a net realizable value. Accounts are written off when they are determined to be uncollectable based on management's assessment of individual accounts. The allowance for doubtful accounts is based on historical collection experience and a review of the current status of patient receivables. It is reasonably possible that the Organization's estimate of allowance for doubtful accounts will change.

The Organization's allowance for doubtful accounts for self-pay patients is calculated by reserving 45% of balances that are 60-90 days aged and 90% of all balances greater than 120 days. All other payors are reserved at 90% of the amount over 150 days.

**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. The Organization has not changed its charity care or uninsured discount policies as of fiscal years 2014 or 2013.

**Other accounts receivable:** Other accounts receivable are stated at the amount the Organization expects to collect. Other accounts receivable relate primarily to wrap-around payments (WRAP) for visits occurring prior to June 30, 2014. Payments for these visits are received on a quarterly basis to subsidize the difference between payments under Medicaid managed care payors and the Medicaid program.

**Pharmacy inventory:** Pharmacy inventories are stated at the lower of cost or market. Cost is determined using the first in, first out (FIFO) basis.

**Property and equipment:** Property and equipment acquisitions are recorded at cost. Depreciation of property and equipment are provided for using the straight-line method over the estimated useful lives of the assets.

Maintenance and repairs are charged to operations when incurred. Betterments and renewals are capitalized. When property and equipment are sold or otherwise disposed of, the asset accounts and related accumulated depreciation accounts are relieved, and any gain or loss is included in operations.

## COMMUNITY HEALTH NET

### NOTES TO FINANCIAL STATEMENTS

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**Net assets:** Net assets include revenue, expenses, gains, and losses that are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Organization and changes therein are classified and reported as follows:

Unrestricted net assets are neither permanently nor temporarily restricted by donor- or grantor-imposed stipulations.

Temporarily restricted net assets result from contributions, grants, or other inflows of assets whose use by the Organization is limited by donor- or grantor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Organization pursuant of those stipulations, from other asset enhancements and diminishments subject to the same kinds of stipulations, or from reclassifications to or from other classes of net assets as a consequence of donor- or grantor-imposed stipulations, their expiration by passage of time, or their fulfillment and removal by actions of the Organization pursuant to those stipulations. Temporarily restricted net assets include \$14,667 of funds received in 2014 related to the Outpatient Early Intervention Services with Respect to HIV Disease grant.

Permanently restricted net assets result from contribution, grants, and other inflows of assets whose use by the Organization is limited by donor- or grantor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Organization, from other asset enhancements and diminishments subject to the same kinds of restrictions, or from reclassification from or to other classes of net assets as a consequence of donor- or grantor- imposed stipulations. The Organization does not have any permanently restricted net assets.

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

Revenue under agreements with Medicaid, Medicare, and third-party insurance companies are paid at prospectively determined rates. The rates for Medicare and Medicaid vary according to a patient classification system that is based on clinical, diagnostic, and other factors. As part of the filing of the annual Medicare cost report, the Organization requests reimbursement from Medicare for the differences between their established rates and the Medicare determined rates that they are not able to collect from co-insurance policies or other sources.

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. Compliance with such laws and regulations can be subject to future government review and interpretation, as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The Organization believes it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations.

**Grant revenue:** Grant revenue relates to amounts received from the Department of Health and Human Services to fund operating expenses, except depreciation, interest, and other specifically unallowable expenses. Grant revenue was also received during the year under the Affordable Care Act for certain capital development in health centers. Funds from this grant are being used towards renovation at one of the locations.

**Income taxes:** The Organization is a nonprofit organization as described in Section 501(c)(3) of the Internal Revenue Code (Code) and is exempt from income taxes on its income under Section 501(a) of the Code. Accordingly, no provisions for income taxes have been included in the accompanying financial statements.

The Organization follows the guidance for accounting for uncertainty in income taxes recognized in an organization's financial statements that prescribes a recognition threshold of more-likely-than-not to be sustained upon examination by the appropriate taxing authority. Measurement of the tax uncertainty occurs if the recognition threshold has been met. The guidance also addresses derecognition, classification, interest and penalties, accounting in interim periods, and disclosure.

## COMMUNITY HEALTH NET

### NOTES TO FINANCIAL STATEMENTS

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Management has determined that this guidance had no material effect on the financial statements. The Organization's policy is to recognize interest related to unrecognized tax benefits in interest expense and penalties in general and administrative expenses. There were no interest or penalties recognized on the statements of operations and changes in net assets as a result of this guidance. Generally, tax returns for the years ended June 30, 2011, and thereafter remain subject to examination by federal and state tax authorities.

**Reclassifications:** Certain reclassifications were made to the 2013 financial statements to conform to the 2014 presentation.

**Subsequent events:** In preparing these financial statements, the Organization evaluated events that occurred through February 4, 2015, the date the financial statements were available to be issued, for potential recognition or disclosure.

#### Note 2. Recent Accounting Pronouncement

In May 2014, the Financial Accounting Standards Board (FASB) issued guidance related to recognition of revenue from contracts with customers. This guidance requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers and requires certain qualitative and quantitative disclosures regarding revenue arising from contracts with customers. This Accounting Standards Update (ASU) will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. The guidance permits the use of either a retrospective or modified retrospective (cumulative effect) transition method. This guidance is effective for public entities with annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early application is not permitted for public entities. For all other entities (nonpublic entities), the amendments in this ASU will be effective for annual reporting periods beginning after December 15, 2017, and interim periods within annual periods beginning after December 15, 2018. A nonpublic entity may elect to apply this guidance earlier, subject to certain limitations. The Organization is currently evaluating the impact, if any, that adoption will have on its financial statements. Management has not yet selected a transition method nor has the effect of this guidance on the Organization's ongoing financial reporting been determined.

#### Note 3. Note Payable

The note payable consists of the following as of June 30:

	2014	2013
The Organization has a \$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. The note was paid in July 2014.	\$ 4,152	\$ 58,238
Less current maturities	(4,152)	(49,633)
	<u>\$ -</u>	<u>\$ 8,605</u>

#### Note 4. Defined Contribution Plan

The Organization sponsors a defined contribution plan (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 employee's compensation.

## COMMUNITY HEALTH NET

### NOTES TO FINANCIAL STATEMENTS

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The Plan's maximum employee contribution is 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 discretionary contribution for the years ended June 30, 2014 or 2013.

#### Note 5. Line of Credit

The Organization has a \$350,000 line of credit with a financial institution. It is reviewed annually and is expected to be renewed during 2015. Interest is payable monthly at a rate of 4.25%. Borrowings were \$340,693 as of June 30, 2014 and 2013. The line of credit is collateralized by accounts receivable and building.

#### Note 6. Concentration of Credit Risks

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. The mix of receivables from patients and third-party payors as of June 30 is as follows:

	2014		2013	
Other	41	%	38	%
Self pay	39		49	
Medicare	14		3	
Medical Assistance	6		10	
	<u>100</u>	<u>%</u>	<u>100</u>	<u>%</u>

#### Note 7. Net Patient Service Revenue

Net patient service revenue consists of the following components for the years ended June 30:

	2014		2013
Gross patient service fees	\$ 11,223,677	\$	12,974,237
Less provision for contractual allowances	(3,064,989)		(5,126,151)
Less provision for bad debts	(642,366)		(578,147)
	<u>\$ 7,516,322</u>	<u>\$</u>	<u>7,269,939</u>

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

Contractual allowances represent the difference between the established billing rates and amounts estimated to be paid under various health benefit agreements, including Medicare, Medical Assistance of Pennsylvania, Highmark Inc., and other insurance plans. Provisions for contractual allowances are recorded in the period in which the services are provided.

## COMMUNITY HEALTH NET

### NOTES TO FINANCIAL STATEMENTS

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#### Note 8. Functional Expenses

The Organization expended the following for the years ended June 30:

	2014	2013
Program services	\$ 9,229,584	\$ 9,738,289
Administrative	485,768	512,542
	<u>\$ 9,715,352</u>	<u>\$ 10,250,831</u>

#### Note 9. Grants

The Organization participates in federally assisted and other grant programs. These programs are subject to program compliance audits by the grantors or their representatives. The Organization is potentially liable for any expenditure that may be disallowed pursuant to the terms of these grant programs. Management is not aware of any material items of noncompliance, which would result in the disallowance of program expenditures. A summary of the Organization's federally assisted and other grants discussed above for the years ended June 30 is as follows:

	2014	2013
Consolidated Health Centers	\$ 1,737,326	\$ 1,382,960
Outpatient Early Intervention Services to HIV Disease	197,998	216,663
Affordable Care Act Grants for Capital Development in Health Centers	159,573	-
GE Foundation	-	200,000
Other grants	104,239	134,979
<b>Total grant revenue</b>	<u>\$ 2,199,136</u>	<u>\$ 1,934,602</u>

#### Note 10. Contingencies

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

Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that the Organization is in compliance with fraud and abuse as well as other applicable government laws and regulations. While no regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time.

**Litigation:** The Organization is involved in certain claims of legal actions arising in the ordinary course of business. In the opinion of the management, after consultation with legal counsel, the ultimate dispositions of these matters are not expected to have a material adverse effect of the financial position of the Organization if the claims and legal actions prove unsuccessful.

**COMMUNITY HEALTH NET**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

Year Ended June 30, 2014

See Independent Auditor's Report

<b>Federal Grantor/Pass-Through Grantor Program Title</b>	<b>Federal CFDA Number</b>	<b>Federal Expenditures</b>
<b><u>U.S. Department of Health and Human Services</u></b>		
Pass through Health Resources and Services Administration		
Consolidated Health Centers Grant	93.224	\$ 1,737,326
Outpatient Early Intervention Services with Respect to HIV Disease	93.918	197,998
Affordable Care Act Grants for Capital Development in Health Centers	93.526	<u>159,573</u>
<b>Total expenditures of federal awards</b>		<b><u><u>\$ 2,094,897</u></u></b>

See Notes to Schedule of Expenditures of Federal Awards.

**COMMUNITY HEALTH NET**

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Year Ended June 30, 2014**

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**Note 1. Basis of Presentation**

The accompanying schedule of expenditures of federal awards (Schedule) includes the federal grant activity of the Organization 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 the U.S. 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 the Organization, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Organization.

**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.

**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**

Board of Directors  
Community Health Net  
Erie, Pennsylvania

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Community Health Net (Organization), which comprise the statement of financial position as of June 30, 2014, and the related statements of operations and changes in net assets and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated February 4, 2015.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Organization's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization'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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

**Compliance and Other Matters**

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

## Purpose of this Report

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

*Arnett Carbis Toothman LLP*

Pittsburgh, Pennsylvania  
February 4, 2015

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR  
EACH MAJOR FEDERAL PROGRAM AND REPORT ON  
INTERNAL CONTROL OVER COMPLIANCE  
REQUIRED BY OMB CIRCULAR A-133**

Board of Directors  
Community Health Net  
Erie, Pennsylvania

**Report on Compliance for the Major Federal Programs**

We have audited the compliance of Community Health Net (Organization) with the types of compliance requirements described in the OMB Circular A-133 *Compliance Supplement* that could have a direct and material effect on Community Health Net's major federal programs for the year ended June 30, 2014. Community Health Net's major federal programs are identified in the summary of independent 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 Community Health Net'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 the Organization'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 the major federal programs. However, our audit does not provide a legal determination of the Organization's compliance.

**Opinion on the Major Federal Programs**

In our opinion, Community Health Net complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal programs for the year ended June 30, 2014.

## Report on Internal Control Over Compliance

Management of the Organization 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 the Organization's internal control over compliance with the types of requirements that could have a direct and material effect on its major federal programs to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for its major federal programs 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 the Organization's internal control over compliance.

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

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

### Purpose of this Report

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

*Arnett Carbis Toothman LLP*

Pittsburgh, Pennsylvania  
February 4, 2015

**COMMUNITY HEALTH NET**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year Ended June 30, 2014**

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SECTION 1 – SUMMARY OF INDEPENDENT AUDITOR’S RESULTS

**Financial Statements**

Type of auditor’s report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified?  Yes  No

Significant deficiencies identified that are not considered to be material weakness(es)?  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 deficiencies identified that are not considered to be material weakness(es)?  Yes  None Reported

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

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

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Programs or Cluster</u>
93.224	Consolidated Health Centers Grant
93.526	Affordable Care Act Grants for Capital Development in Health Centers

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

Auditee qualified as low-risk auditee?  Yes  No

**COMMUNITY HEALTH NET**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)**

**Year Ended June 30, 2014**

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**SECTION 2 – FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GENERALLY ACCEPTED GOVERNMENT AUDITING STANDARDS**

**A. Significant Deficiencies in Internal Control over Financial Reporting**

None reported.

**B. Compliance Findings**

None reported.

**SECTION 3 – FINDINGS AND QUESTIONED COSTS FOR MAJOR FEDERAL AWARDS**

None reported.

**COMMUNITY HEALTH NET**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

**Year Ended June 30, 2014**

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None reported.