

Community Health Services, Inc.

**Financial Statements
and Independent Auditor's Report**

December 31, 2014 and 2013

Community Health Services, Inc.

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Independent Auditor's Report

To the Board of Directors
Community Health Services, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Community Health Services, Inc. (the "Center"), which comprise the statements of financial position as of December 31, 2014 and 2013, and the related statements of activities and changes in net assets, functional expenses 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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to 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 Services, Inc. as of December 31, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 27, 2015 on our consideration of Community Health Services, 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 Services, Inc.'s internal control over financial reporting and compliance.

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

Hartford, Connecticut
April 27, 2015

Community Health Services, Inc.

**Statements of Financial Position
December 31, 2014 and 2013**

<u>Assets</u>	<u>2014</u>	<u>2013</u>
Current assets:		
Cash and cash equivalents	\$ 2,066,508	\$ 1,815,234
Receivables:		
Grants and contracts	283,702	210,430
Patient service, net	659,807	491,176
Other	208,316	242,135
Prepaid expenses and other	159,762	175,014
Total current assets	3,378,095	2,933,989
Property and equipment, net	14,548,560	15,647,495
Security deposit	10,133	10,133
Total assets	\$ 17,936,788	\$ 18,591,617
<u>Liabilities and Net Assets</u>		
Current liabilities:		
Current portion of notes payable	\$ 154,707	\$ 147,456
Accounts payable	135,558	431,807
Accrued liabilities	700,950	673,227
Total current liabilities	991,215	1,252,490
Noncurrent liabilities:		
Notes payable, net of current portion	708,161	836,661
Total liabilities	1,699,376	2,089,151
Commitments and contingencies		
Net assets:		
Unrestricted net assets	16,195,984	16,490,925
Temporarily restricted net assets	41,428	11,541
Total net assets	16,237,412	16,502,466
Total liabilities and net assets	\$ 17,936,788	\$ 18,591,617

See Notes to Financial Statements.

Community Health Services, Inc.

**Statements of Activities and Changes in Net Assets
Years Ended December 31, 2014 and 2013**

	2014	2013
Changes in unrestricted net assets:		
Operating revenue and support:		
Patient service revenue (net of contractual allowances and discounts)	\$ 11,359,244	\$ 9,136,082
Provision for bad debts	(1,222,605)	(1,074,072)
Net patient service revenue, less provision for bad debts	10,136,639	8,062,010
Government grants	5,552,290	5,237,086
Pharmacy revenue	580,021	589,885
Local and other grants	105,034	106,386
Rental income	46,140	44,100
Other revenue	341,630	37,380
Contributions	4,157	6,540
Total operating revenue and support	16,765,911	14,083,387
Operating expenses:		
Program services	12,409,115	11,819,214
Management and general	4,662,150	4,472,228
Loss on disposal of property and equipment	-	67,512
Total operating expenses	17,071,265	16,358,954
Operating loss	(305,354)	(2,275,567)
Nonoperating income:		
Capital projects grants	-	414,783
Net assets released from restriction	10,413	35,882
Total nonoperating income	10,413	450,665
Decrease in unrestricted net assets	(294,941)	(1,824,902)
Changes in temporarily restricted net assets:		
Restricted contributions	40,300	39,950
Net assets released from restriction	(10,413)	(35,882)
Increase in temporarily restricted net assets	29,887	4,068
Change in net assets	(265,054)	(1,820,834)
Net assets, beginning of year	16,502,466	18,323,300
Net assets, end of year	\$ 16,237,412	\$ 16,502,466

See Notes to Financial Statements.

Community Health Services, Inc.

**Statement of Functional Expenses
Year Ended December 31, 2014**

	<u>Program Services</u>	<u>Management and General</u>	<u>Total</u>
Salaries and wages	\$ 6,976,981	\$ 2,990,135	\$ 9,967,116
Employee benefits	1,729,045	741,020	2,470,065
Contracted services	593,140	187,189	780,329
Program activities, supplies and materials	682,333	-	682,333
Equipment rental and maintenance	301,494	111,512	413,006
Professional services	267,744	114,747	382,491
Occupancy	248,472	91,900	340,372
Donated supplies	456,375	-	456,375
Insurance	103,560	38,303	141,863
Travel, conferences and meetings	26,141	26,142	52,283
Postage and supplies	83,433	35,757	119,190
Rent	73,145	-	73,145
Interest	30,753	13,180	43,933
Other	48,971	20,987	69,958
	<u>11,621,587</u>	<u>4,370,872</u>	<u>15,992,459</u>
Depreciation	<u>787,528</u>	<u>291,278</u>	<u>1,078,806</u>
Total functional expenses	<u>\$ 12,409,115</u>	<u>\$ 4,662,150</u>	<u>\$ 17,071,265</u>

See Notes to Financial Statements.

Community Health Services, Inc.

**Statement of Functional Expenses
Year Ended December 31, 2013**

	<u>Program Services</u>	<u>Management and General</u>	<u>Total</u>
Salaries and wages	\$ 6,399,063	\$ 2,742,455	\$ 9,141,518
Employee benefits	1,544,166	661,786	2,205,952
Contracted services	945,547	322,247	1,267,794
Program activities, supplies and materials	644,330	-	644,330
Equipment rental and maintenance	315,763	116,789	432,552
Professional services	315,580	135,249	450,829
Occupancy	235,734	87,189	322,923
Donated supplies	287,058	-	287,058
Insurance	115,019	24,316	139,335
Travel, conferences and meetings	42,197	42,197	84,394
Postage and supplies	84,033	36,014	120,047
Rent	82,126	-	82,126
Interest	33,046	14,162	47,208
Other	50,655	21,710	72,365
	<u>11,094,317</u>	<u>4,204,114</u>	<u>15,298,431</u>
Depreciation	<u>724,897</u>	<u>268,114</u>	<u>993,011</u>
Total functional expenses	<u>\$ 11,819,214</u>	<u>\$ 4,472,228</u>	<u>\$ 16,291,442</u>

See Notes to Financial Statements.

Community Health Services, Inc.
Statements of Cash Flows
Years Ended December 31, 2014 and 2013

	2014	2013
Operating activities:		
Change in net assets	\$ (265,054)	\$ (1,820,834)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Provision for bad debts	1,222,605	1,074,072
Depreciation	1,078,806	993,011
Loss on disposal of property and equipment	-	67,512
Capital projects grants and restricted contributions	-	(454,733)
Changes in operating assets and liabilities:		
Grants and contracts receivable	(73,272)	511,003
Patient service receivables, net	(1,391,236)	(883,551)
Other receivables	33,819	(71,778)
Prepaid expenses and other	15,252	(225)
Accounts payable	(296,249)	(629,971)
Accrued liabilities	73,364	211,328
Net cash provided by (used in) operating activities	398,035	(1,004,166)
Investing activities:		
Purchases of property and equipment	(25,512)	(894,194)
Net cash used in investing activities	(25,512)	(894,194)
Financing activities:		
Capital projects grants and restricted contributions	-	454,733
Proceeds from construction revolving line of credit	-	492,813
Proceeds from note payable	26,242	-
Principal payments on notes payable	(147,491)	(108,456)
Net cash provided by (used in) financing activities	(121,249)	839,090
Net increase (decrease) in cash and cash equivalents	251,274	(1,059,270)
Cash and cash equivalents, beginning of year	1,815,234	2,874,504
Cash and cash equivalents, end of year	\$ 2,066,508	\$ 1,815,234
Supplemental disclosure of cash flow data:		
Cash paid for interest	\$ 43,933	\$ 47,208
Noncash investing and financing activities:		
Vendor credit on accrued liabilities related to capital assets	\$ 45,641	\$ -

See Notes to Financial Statements.

Community Health Services, Inc.

Notes to Financial Statements December 31, 2014 and 2013

Note 1 - Organization and summary of significant accounting policies

Organization

Community Health Services, Inc. (the "Center") is a non-profit organization formed for the purpose of providing medical services for residents of the Greater Hartford, Connecticut area.

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

Basis of presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. The Center reports information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted. They are described as follows:

Unrestricted - Net assets that are not subject to explicit donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of the Board of Directors.

Temporarily Restricted - Net assets whose use by the Center is subject to either explicit donor-imposed stipulations or by the operation of law that can be fulfilled by actions of the Center or that expire by the passage of time.

Permanently Restricted - Net assets subject to explicit donor-imposed stipulations that they be maintained permanently by the Center and stipulate the use of income and/or appreciation as either unrestricted or temporarily restricted based on donor imposed stipulations or by operation of law. At December 31, 2014 and 2013, there were no permanently restricted net assets.

Performance indicator

The statements of activities and changes in net assets include operating loss before nonoperating income as the performance indicator. Changes in unrestricted net assets, which are excluded from the performance indicator, include capital project grants and net assets released from restriction.

Cash and cash equivalents

The Center considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

Community Health Services, Inc.

Notes to Financial Statements December 31, 2014 and 2013

Patient service receivables

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

Receivables due directly from patients are carried at the original charge for the service provided less discounts provided under the Center's charity care policy, less amounts covered by third-party payors and less an estimated allowance for doubtful accounts. Management determines the allowance for doubtful accounts by identifying troubled accounts and by historical experience applied to an aging of accounts. The Center considers accounts past due when they are outstanding beyond 60 days with no payment. The Center generally does not charge interest on past due accounts. Patient receivables are written off to the allowance for doubtful accounts when deemed uncollectible. Recoveries of receivables previously written off are recorded as a reduction of provision for bad debts when received.

Pharmacy revenue

The Center participates in Section 340B of the Public Health Service Act ("PHS Act"), *Limitation on Prices of Drugs Purchased by Covered Entities*. Participation in this program allows the Center to purchase pharmaceuticals at discounted rates for prescriptions to eligible patients. The Center has outsourced the administration of this program to commercial pharmacies. The Center records revenue based on the price of the pharmaceuticals dispensed.

Property and equipment

Property and equipment acquisitions that individually exceed \$5,000 and have a useful life of greater than one year are capitalized at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets. Estimated useful lives of assets are as follows:

Building	39 years
Improvements	20 years
Office and medical equipment	10 years
Furniture and fixtures	7 years
Vehicles	5 years

Expenditures for repairs and maintenance are charged to expense as incurred. For assets sold or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is reflected in the statements of activities and changes in net assets.

Community Health Services, Inc.

Notes to Financial Statements December 31, 2014 and 2013

The Center reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In performing a review for impairment, the Center compares the carrying value of the assets with their estimated future undiscounted cash flows. If it is determined that impairment has occurred, the loss would be recognized during the period. The impairment loss is calculated as the difference between the asset carrying values and the present value of estimated net cash flows or comparable market values giving consideration to recent operating performance and pricing trends. The Center does not believe that any material impairment currently exists related to its long-lived assets.

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

Certain property and equipment acquired with Federal Government and State of Connecticut grant funds are considered to be owned by the Center while used in the program or in future authorized programs. However, the Federal Government and the State of Connecticut retain a reversionary interest in these assets, as well as the right to determine the use of any proceeds from their sale or disposal. Accordingly, the Center may not transfer, mortgage, assign, lease or in any other manner encumber these assets without prior approval from the Federal Government and the State of Connecticut.

Recognition of support and revenue

Patient service revenue

The Center has agreements with third-party payors that provide for payments to the Center at amounts different from its established rates. Payment arrangements include predetermined fee schedules and discounted charges. Service fees are reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered, including retroactive adjustments under reimbursement agreements with third-party payors, which are subject to audit by administering agencies. These adjustments are accrued on an estimated basis and are adjusted in future periods as final settlements are determined.

The Center provides care to certain patients under Medicaid and Medicare payment arrangements. Laws and regulations governing the Medicaid and Medicare programs are complex and subject to interpretation. Compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action.

Community Health Services, Inc.

Notes to Financial Statements December 31, 2014 and 2013

Grants and contracts

Grants and contracts revenue from government grants and contracts designated for use in specific activities is recognized in the period when expenditures have been incurred in compliance with the grantor's requirements. Grants and contracts awarded for the acquisition of long-lived assets are reported as unrestricted nonoperating income, in the absence of donor stipulations to the contrary, during the fiscal year in which the assets are acquired. Cash received in excess of revenue recognized is recorded as refundable advances. These grants and contracts require the Center to provide certain healthcare services during specified periods. If such services are not provided during the periods, the governmental entities are not obligated to expend the funds allocated under the grants and contracts.

Contributions

Contributions are recorded at fair value when received or pledged. Amounts are recorded as unrestricted, temporarily restricted or permanently restricted revenue, depending on the existence and/or nature of any donor restrictions. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and are reported in the statements of activities and changes in net assets as net assets released from restrictions.

Donor restricted contributions whose restrictions expire during the same fiscal year are recognized as unrestricted revenue. Conditional contributions are recognized in the period when expenditures have been incurred in compliance with the grantor's restrictions.

In-kind contributions

Donated goods and services are recorded at fair value at the time of the donation. In-kind contributions consist primarily of medical supplies. The fair value of those goods as provided by a funding source is \$453,778 and \$285,249 for the years ended December 31, 2014 and 2013, respectively, and is recorded as government grants, along with a corresponding charge to donated supplies in the accompanying statements of functional expenses.

Charity care and community benefit

The Center is open to all patients, regardless of their ability to pay. In the ordinary course of business, the Center renders services to patients who are financially unable to pay for healthcare. The Center provides care to these patients who meet certain criteria under its sliding fee discount policy without charge or at amounts less than the established rates. Charity care services are computed using a sliding fee scale based on patient income and family size. The Center maintains records to identify and monitor the level of sliding fee discount it provides. For uninsured self-pay patients that do not qualify for charity care, the Center recognizes revenue on the basis of its standard rates for services provided or on the basis of discounted rates, if negotiated or provided by policy. On the basis of historical experience, a significant portion of the Center's uninsured patients will be unable or unwilling to pay for the services provided. Thus, the Center records a significant provision for bad debt related to uninsured patients in the period the services are provided.

Community Health Services, Inc.

Notes to Financial Statements December 31, 2014 and 2013

Community benefit represents the cost of services for Medicaid, Medicare and other public patients for which the Center is not reimbursed.

Based on the cost of patient services, charity care approximated \$2,159,000 and \$2,177,000 and community benefit approximated \$3,201,000 and \$4,341,000 for the years ended December 31, 2014 and 2013, respectively.

Meaningful use incentives

The American Recovery and Reinvestment Act of 2009 ("ARRA") amended the Social Security Act to establish one-time incentive payments under the Medicare and Medicaid programs for certain professionals that (1) meaningfully use certified Electronic Health Records ("EHR") technology, (2) use the certified EHR technology for electronic exchange of health information to improve quality of health care and (3) use the certified EHR technology to submit clinical and quality measures. These provisions of ARRA, together with certain of its other provisions, are referred to as the Health Information Technology for Clinical and Economic Health Act. The criteria for meaningful use incentives will be staged in three steps over six years and be paid out based on a transitional schedule.

For the years ended December 31, 2014 and 2013, the Center has recognized \$318,750 and \$0, respectively, from the Medicaid incentive program, which is included in other revenue.

Functional expenses

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

Income taxes

The Center is incorporated as a not-for-profit entity and is exempt from Federal income tax under the provisions of the Internal Revenue Code Section 501(c)(3).

The Center has no unrecognized tax benefits at December 31, 2014 and 2013. The Center's Federal and state information returns prior to calendar year 2011 are closed and management continually evaluates expiring statutes of limitations, audits, proposed settlements, changes in tax law and new authoritative rulings.

If the Center had unrelated business income taxes, it will recognize interest and penalties associated with uncertain tax positions as part of the income tax provision and include accrued interest and penalties with the related tax liability in the statements of financial position.

Use of estimates

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

Community Health Services, Inc.

Notes to Financial Statements December 31, 2014 and 2013

Reclassifications

Certain prior year information has been reclassified to conform with the current year presentation.

Subsequent events

The Center has evaluated events and transactions for potential recognition or disclosure through April 27, 2015, which is the date the financial statements were available to be issued.

Note 2 - Concentrations

Concentrations of credit risk

The Center's financial instruments that are exposed to concentrations of credit risk consist primarily of cash and cash equivalents, patient service revenue and receivables and grants and contracts revenue and receivables.

Collective bargaining agreement

Approximately 30% of the Center's labor force is covered by a collective bargaining agreement (the "agreement"), which expires in August 2016. The agreement covers clinical employees of the Center.

Cash and cash equivalents

The Center maintains cash in bank accounts, which at times may exceed Federally insured limits. The Center has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents. As of December 31, 2014, the Center had \$1,895,306 of cash and cash equivalents in excess of Federally insured limits.

Patient service revenue and receivables, net

The Center grants credit without collateral to its patients, most of whom are local residents. The mix of receivables from patients and third-party payors as of December 31, 2014 and 2013 is as follows:

	2014	2013
Medicaid	\$ 484,377	\$ 326,517
Medicare	231,693	132,751
Third-party payors	243,423	178,737
Patients	274,922	227,754
	<u>1,234,415</u>	<u>865,759</u>
Less allowance for doubtful accounts	(574,608)	(374,583)
	<u>\$ 659,807</u>	<u>\$ 491,176</u>

Patient service receivables are reduced by an allowance for doubtful accounts. In evaluating the collectability of patient service receivables, the Center analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts.

Community Health Services, Inc.

Notes to Financial Statements December 31, 2014 and 2013

For receivables associated with services provided to patients who have third-party coverage, the Center analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid, or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely).

For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Center records a provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates provided by the Center's policy) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

The Center's allowance for doubtful accounts was 47% and 43% of net patient service receivable at December 31, 2014 and 2013, respectively. The Center has not changed its charity care or uninsured discount policies during 2014 and 2013.

The Center recognizes patient service revenue associated with services provided to patients who have Medicaid, Medicare, third-party payor and Managed Care plans coverage on the basis of contractual rates for services rendered.

Patient service revenue, net of contractual allowances and discounts recognized in the period from these major payor sources, is as follows:

	2014	2013
Medicaid	\$ 8,823,844	\$ 7,031,077
Medicare	1,285,711	723,121
Third-party payors	806,875	704,012
Patients	442,814	677,872
	<u>11,359,244</u>	<u>9,136,082</u>
Less provisions for bad debts	<u>(1,222,605)</u>	<u>(1,074,072)</u>
	<u>\$ 10,136,639</u>	<u>\$ 8,062,010</u>

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

Grants and contracts revenue and receivables

Grants and contracts receivable are evidenced by contracts with a variety of Federal and state government agencies and, based on historical experience, management believes that these receivables represent negligible credit risk. Accordingly, management has not established an allowance for doubtful accounts.

Community Health Services, Inc.

**Notes to Financial Statements
December 31, 2014 and 2013**

Grants and contracts receivable at December 31, 2014 and 2013 are as follows:

	<u>2014</u>	<u>2013</u>
Federal	\$ 184,247	\$ 122,956
State	51,451	76,688
Other	48,004	10,786
	<u>\$ 283,702</u>	<u>\$ 210,430</u>

The Center receives a significant amount of grants and contracts from DHHS. As with all government funding, these grants and contracts are subject to reduction or termination in future years. For the years ended December 31, 2014 and 2013, grants and contracts from DHHS (including both direct awards and awards passed through other organizations) consisted of 88% and 81%, respectively, of the total government grants revenue.

Note 3 - Property and equipment

Property and equipment consists of the following:

	<u>2014</u>	<u>2013</u>
Land	\$ 133,022	\$ 133,022
Building and improvements	18,330,846	18,330,846
Medical furniture and equipment	2,666,486	2,686,615
Office furniture and equipment	1,531,980	1,531,980
Vehicles	29,453	29,453
	<u>22,691,787</u>	<u>22,711,916</u>
Less accumulated depreciation	<u>(8,143,227)</u>	<u>(7,064,421)</u>
	<u>\$ 14,548,560</u>	<u>\$ 15,647,495</u>

In connection with various State of Connecticut grants received for building renovations, forgivable liens have been placed on the real property of the Center. These liens are forgiven at a rate of 10% per year, and will be completely forgiven by 2022. If the Center were to not fulfill the requirements of these grants, a liability for the remaining balance of the liens would be incurred.

Community Health Services, Inc.

Notes to Financial Statements December 31, 2014 and 2013

Note 4 - Operating leases

The Center leases certain medical and office equipment and a facility under operating lease arrangements, which expire at various times through August 2017.

Future minimum lease payments relating to all operating leases as of December 31, 2014 are as follows:

<u>Year Ending</u> <u>December 31,</u>	
2015	\$ 101,337
2016	60,800
2017	40,533
	<u>\$ 202,670</u>

Total rent expense for these operating leases was \$103,125 and \$112,494 for the years ended December 31, 2014 and 2013, respectively.

Note 5 - Rental income

The Center leases a portion of its facility to an unrelated third-party with a lease that expires in June 2015. Rental income for the years ended December 31, 2014 and 2013 was \$46,140 and \$44,100, respectively.

Future minimum lease payments as of December 31, 2014 are \$11,250.

Note 6 - Notes payable

The Center has a term note payable with a bank, with an interest rate of 5%. Payments of equal monthly installments, consisting of principal and interest, are made until December 22, 2019. The note is secured with a lien on the real property owned by the Center. Pursuant to the terms of the agreement, the Center is required to comply with, among other things, certain financial covenants including the debt service coverage ratio. The total outstanding balance as of December 31, 2014 and 2013 was \$449,448 and \$526,505, respectively. The current portion of the term note payable was \$81,033 and \$77,089 as of December 31, 2014 and 2013, respectively.

On July 17, 2014, the Center entered into a term note payable with ProHealth Capital, with an interest rate of 6.49%. The note is secured by the assets of the Center. Payments of equal monthly installments, consisting of principal and interest, are made until January 15, 2021. The total outstanding balance as of December 31, 2014 was \$26,210. The current portion of the term note payable was \$3,272 as of December 31, 2014.

Community Health Services, Inc.

Notes to Financial Statements December 31, 2014 and 2013

On September 28, 2012, the Center executed a revolving line of credit with Bank of America with total available funds of \$500,000 for the period from September 28, 2012 through June 30, 2013. The Center had the ability to draw on the line of credit during this period for the purpose of renovating a health center in Windsor, Connecticut. On June 30, 2013, the line of credit converted to a term loan payable in monthly installments through the maturity date of June 30, 2020. The loan bears interest at the bank's prime rate plus 1 percentage point (4.25% as of December 31, 2014). The loan is secured by substantially all assets of the Center. Pursuant to the terms of the agreement, the Center is required to comply with, among other things, certain financial covenants including the debt service coverage ratio. Total outstanding balance as of December 31, 2014 and 2013 was \$387,210 and \$457,612, respectively. The current portion of the term loan payable was \$70,402 and \$70,367 as of December 31, 2014 and 2013, respectively.

Maturities of the notes payable are as follows:

Year Ending
December 31,

2015	\$ 154,707
2016	159,521
2017	164,142
2018	169,004
2019	174,748
Thereafter	40,746
	<u>\$ 862,868</u>

Note 7 - Line of credit

As of December 31, 2014, the Center has a line of credit with a bank for \$500,000 that expires on June 30, 2015, with an interest rate per year equal to the bank's prime rate plus one percentage point. There have been no draws on this line of credit during 2014 or 2013. Pursuant to the terms of the agreement, the Center is required to comply with, among other things, certain financial covenants including the debt service coverage ratio.

Note 8 - Employee benefit plan

The Center maintains a 401(k) defined contribution plan for the employees. This plan allows the Center to make matching employer contributions. The employer contributions made during the years ended December 31, 2014 and 2013 were \$186,812 and \$128,965, respectively.

Community Health Services, Inc.

Notes to Financial Statements December 31, 2014 and 2013

Note 9 - Net asset restrictions and designations

Temporarily restricted net assets are available for the following purposes as of December 31, 2014 and 2013:

	2014	2013
Use for uninsured	\$ 5,999	\$ 6,070
Dental mission	35,336	5,336
World AIDS day	93	135
Total temporarily restricted net assets	<u>\$ 41,428</u>	<u>\$ 11,541</u>

Note 10 - Commitments and contingencies

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

The healthcare industry is subject to voluminous and complex laws and regulations of Federal, state and local governments. 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. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government healthcare program participation requirements, reimbursement laws and regulations, anti-kickback and anti-referral laws and false claims prohibitions.

In recent years, government activity has increased with respect to investigations and allegations concerning possible violations of reimbursement, false claims, anti-kickback and anti-referral statutes and regulation by healthcare providers. The Center believes that it is in material compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. Upon audit, if discrepancies are discovered, the Center could be held responsible for refunding the amounts in question.

The Center maintains its medical malpractice coverage under the Federal Tort Claims Act (the "FTCA"). The FTCA provides malpractice coverage to eligible Public Health Service supported programs and applies to the Center and its employees while providing services within the scope of employment included under grant-related activities. The Attorney General, through the U.S. Department of Justice, has the responsibility for the defense of the individual and/or grantee for malpractice cases approved for FTCA coverage. The Center maintains gap insurance for claims that are not covered by the FTCA. The gap insurance is on a claims-made basis and the coverage limits are \$1,000,000 per occurrence and \$3,000,000 in the aggregate.

Community Health Services, Inc.

Notes to Financial Statements December 31, 2014 and 2013

The Center is involved in various claims and legal actions arising in the ordinary course of business. Management is of the opinion that the ultimate outcome of these matters would not have a material adverse impact on the financial position, results of operations or cash flows of the Center.

Note 11 - Pharmacy

The Center had a service agreement with Arrow Pharmacy to operate a pharmacy on site. The original agreement expired in April 2009 but is extended on a month-to-month basis. Arrow Pharmacy bills and collects for prescriptions, pays all pharmacy expenses and remits income to the Center. Income from pharmacy operations was \$580,021 and \$589,885 for the years ended December 31, 2014 and 2013, respectively. The Center also has an executed 340B Contract Pharmacy Services agreement with Walgreens that was executed in December 2012. Pharmacy operations with Walgreens under the 340B program began in November 2014. As of December 31, 2014 and 2013, the Center has \$207,196 and \$184,826, respectively, of receivables relating to the pharmacy program.

Community Health Services, Inc.

**Federal Awards in
Accordance with OMB Circular A-133
and Independent Auditor's Reports**

December 31, 2014

Community Health Services, Inc.

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

To the Board of Directors
Community Health Services, Inc.

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Community Health Services, Inc. (the "Center") (a nonprofit organization), which comprise the statement of financial position as of December 31, 2014, and the related statements of activities and changes in net assets, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 27, 2015.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

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

Hartford, Connecticut
April 27, 2015

Independent Auditor's Report on Compliance for Each Major Federal Program;
Report on Internal Control over Compliance; and Report on the Schedule of
Expenditures of Federal Awards Required by OMB Circular A-133

To the Board of Directors
Community Health Services, Inc.

Report on Compliance for Each Major Federal Program

We have audited Community Health Services, Inc.'s (the "Center") 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 the Center's major Federal programs for the year ended December 31, 2014. The Center'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 the Center'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 Center'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 the Center's compliance.

Opinion on Each Major Federal Program

In our opinion, the Center complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the year ended December 31, 2014.

Report on Internal Control over Compliance

Management of the Center 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 Center'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 the Center'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.

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.

Report on the Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of the Center as of and for the year ended December 31, 2014, and have issued our report thereon dated April 27, 2015, which contained an unmodified opinion on those financial statements. 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 OMB Circular A-133 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 schedule of expenditures of Federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

CohnReznick LLP

Hartford, Connecticut
April 27, 2015

Community Health Services, Inc.

Schedule of Expenditures of Federal Awards Year Ended December 31, 2014

Federal Grantor / Pass-Through Grantor / Program or Cluster Title	Federal CFDA Number	Pass-Through ID/ Grantor's Number	Federal Expenditures
U.S. Department of Health and Human Services:			
Consolidated Health Centers Passed through the Massachusetts League of Community Health Centers:	93.224	N/A	\$ 1,456,625
Consolidated Health Centers Total CFDA 93.224	93.224	CRVFHP	73,436
			<u>1,530,061</u>
Affordable Care Act - Grants for New and Expanded Services under the Health Center Program	93.527	N/A	2,055,984
Total Health Centers Cluster			<u>3,586,045</u>
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918	N/A	376,634
Passed through Community Health Center Association of Connecticut:			
Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283	2010-0193-5	16,829
Coordinated Services and Access to Research for Women, Infants, Children and Youth	93.153	61112HA24859-01-01	135,875
Passed through the City of Hartford:			
HIV Emergency Relief Project Grants	93.914	HHS2013-32E	75,706
Passed through North Central Area Agency on Aging:			
Special Programs for the Aging - Title III, Part D Disease Prevention and Health Promotion Services	93.043	4522	27,664
Passed through State of Connecticut Department of Mental Health and Addiction Services:			
Block Grants for Prevention and Treatment of Substance Abuse	93.959	11MHA2051AA	55,085
Substance Abuse and Mental Health Services - Projects of Regional and National Significance	93.243	11MHA2051AA	30,000
Passed through Community Health Center Association of Connecticut:			
Substance Abuse and Mental Health Services - Projects of Regional and National Significance	93.243	N/A	45,370
Total CFDA 93.243			<u>75,370</u>
Passed through the State of Connecticut Department of Public Health:			
Healthy Start Initiative	93.926	2010-0182	65,347
HIV Prevention Activities - Health Department Based	93.940	2013-0120	21,931
Immunization Cooperative Agreements (non-cash award)	93.268	N/A	453,778
Total U.S. Department of Health and Human Services			<u>4,890,264</u>
Social Security Administration:			
Passed through the State of Connecticut Department of Rehabilitation Services:			
Social Security - Disability Insurance	96.001	SDR00112	12,220
U.S. Department of Agriculture:			
Passed through Community Health Center Association of Connecticut:			
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	094CHC-FSP-02-A1	122,106
Total Expenditures of Federal Awards			<u>\$ 5,024,590</u>

See Notes to Schedule of Expenditures of Federal Awards.

Community Health Services, Inc.

Notes to Schedule of Expenditures of Federal Awards December 31, 2014

Note 1 - Basis of presentation

The accounting policies of Community Health Services, Inc. (the "Center") conform to accounting principles generally accepted in the United States of America as applicable to not-for-profit entities. The Center recognizes grants to the extent that eligible grant costs are incurred.

The accompanying schedule of expenditures of Federal awards (the "Schedule") includes the Federal grant activity of the Center and is presented on the accrual basis of accounting. All expenditures incurred under Federally sponsored agreements are recognized and recorded on the accrual basis, except for subrecipient award costs, which are recognized and recorded on a cash basis. 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. 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*. Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Note 2 - Relationship to basic financial statements

Federal expenditures are reported on the statement of functional expenses as program services. In certain programs, the expenditures reported in the basic financial statements may differ from the expenditures reported in the schedule of expenditures of Federal awards due to program expenditures exceeding grant or contract budget limitations or agency-matching or in-kind contributions, which are not included in the statement of activities and changes in net assets.

Note 3 - Subrecipients

There were no Federal awards provided to subrecipients.

Community Health Services, Inc.

**Schedule of Findings and Questioned Costs
Year Ended December 31, 2014**

I. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:

Unmodified

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

Noncompliance material to financial statements noted?

_____ yes ✓ no

Federal Awards

Internal control over major programs:

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

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

Unmodified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?

_____ yes ✓ no

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
	U.S. Department of Health and Human Services:
	Health Centers Cluster:
93.224	Consolidated Health Centers
	Affordable Care Act - Grants for New and Expanded Services
93.527	under the Health Center Program
	Grants to Provide Outpatient Early Intervention Services
93.918	with Respect to HIV Disease

Dollar threshold used to distinguish between type A and type B programs

\$300,000

Auditee qualified as low-risk auditee?

_____ yes ✓ no

Community Health Services, Inc.

**Schedule of Findings and Questioned Costs
Year Ended December 31, 2014**

II. Financial Statements Findings

None

III. Federal Award Findings and Questioned Costs

None

IV. Prior Year Financial Statements Findings

None

V. Prior Year Federal Award Findings and Questioned Costs

Finding 2013-1 - Activities Allowed or Unallowed - Time and Effort Reporting

Grantor: U.S. Department of Health and Human Services ("DHHS")
Federal Program Names: Consolidated Health Centers, Affordable
Care Act - Grants for New and Expanded Services
under the Health Center Program and Grants to Provide
Outpatient Early Intervention Services with Respect to HIV
Disease
CFDA Numbers: 93.224, 93.527 and 93.918

Condition

The Center did implement an effective process of time and effort reporting within the time-keeping system. However, the payroll within the general ledger is not set up by grant fund. As such, the payroll expense is recorded using full time equivalent ("FTE") allocations that were budgeted at the beginning of the funding period, rather than using the actual allocations based on the time and effort reporting that is being performed.

Current Status

In 2014, the Center began recording payroll expense by grant fund in the general ledger software. Time allocations are based on actual time worked. There was no similar finding in 2014.

Finding 2013-2 - Eligibility

Grantor: U.S. Department of Health and Human Services ("DHHS")
Federal Program Names: Consolidated Health Centers, Affordable
Care Act - Grants for New and Expanded Services
under the Health Center Program
CFDA Numbers: 93.224 and 93.527

Condition

Testing of the application of the sliding fee scale identified instances (2 instances out of the sample size of 53 patients) where the sliding fee discounts were improperly applied to patient accounts.

Current Status

Eligibility was not an applicable compliance requirement in 2014.