

**Community Healthcare Network, Inc.**

**Financial Statements,  
Schedule of Expenditures of Federal Awards,  
Internal Control and Compliance  
and Independent Auditor's Reports**

**December 31, 2014**

# Community Healthcare Network, Inc.

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## Independent Auditor's Report

To the Board of Directors  
Community Healthcare Network, Inc.

### *Report on the Financial Statements*

We have audited the accompanying financial statements of Community Healthcare Network, Inc. ("CHN"), which comprise the statement of financial position as of December 31, 2014, and the related statements of activities and change in net assets, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

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

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

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to CHN's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of CHN's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## *Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of CHN as of December 31, 2014, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## *Other Matters*

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of Federal awards as required by U.S. 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 September 25, 2015, on our consideration of CHN's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering CHN's internal control over financial reporting and compliance.



New York, New York  
September 25, 2015

Community Healthcare Network, Inc.

Statement of Financial Position  
December 31, 2014

Assets

Current assets:

Cash and cash equivalents	\$ 30,106,841
Certificates of deposit	4,415,235
Patient services receivable, net	7,903,281
Grants and contracts receivable	2,522,934
Meaningful use incentive receivable	505,750
Prepaid expenses and other current assets	2,176,988
Total current assets	<u>47,631,029</u>

Assets limited as to use:

Cash and cash equivalents	7,315,995
Certificates of deposit	5,748,753
Total assets limited as to use	<u>13,064,748</u>

Subvention receivable	1,000,000
Property and equipment, net	10,585,564
Security deposits and other assets	946,766

Total assets \$ 73,228,107

Liabilities and Unrestricted Net Assets

Current liabilities:

Accounts payable and accrued expenses	\$ 2,465,102
Accrued compensation	2,637,114
Total current liabilities	<u>5,102,216</u>

Long-term liabilities:

Deferred rent	666,232
Total liabilities	<u>5,768,448</u>

Commitments and contingencies

Net assets - unrestricted:

Undesignated	54,394,911
Board-designated for capital projects	13,064,748
Total unrestricted net assets	<u>67,459,659</u>

Total liabilities and unrestricted net assets \$ 73,228,107

See Notes to Financial Statements.

**Community Healthcare Network, Inc.**

**Statement of Activities and Change in Net Assets  
Year Ended December 31, 2014**

Operating revenue:	
Patient services (net of contractual allowances and discounts)	\$ 46,679,213
Provision for bad debts	<u>(1,000,000)</u>
Net patient services revenue net of provision for bad debt	45,679,213
Contract services and other grants	9,027,973
DHHS grants	5,611,990
Donated vaccines	765,715
Meaningful use incentive	556,750
Other income	<u>977,389</u>
Total operating revenue	<u>62,619,030</u>
Operating expenses:	
Salaries and fringe benefits	35,457,442
Other than personnel services	<u>13,694,325</u>
Total operating expenses	<u>49,151,767</u>
Operating income prior to depreciation and amortization and nonoperating revenue and expense	13,467,263
Depreciation and amortization	<u>2,304,757</u>
Operating income prior to nonoperating revenue and expense	<u>11,162,506</u>
Nonoperating revenue:	
DHHS grants for capital additions	457,484
Gain from life insurance policies	1,273,597
Gain on sale of investment	<u>925,840</u>
Total nonoperating revenue	<u>2,656,921</u>
Nonoperating expense:	
Contribution to life insurance beneficiary	<u>737,391</u>
Total nonoperating expenses	<u>737,391</u>
Change in unrestricted net assets	13,082,036
Unrestricted net assets, beginning of year	<u>54,377,623</u>
Unrestricted net assets, end of year	<u>\$ 67,459,659</u>

See Notes to Financial Statements.

**Community Healthcare Network, Inc.**

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

	Program Services	General and Administrative	Total
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Salaries and wages	\$ 22,453,112	\$ 4,838,549	\$ 27,291,661
Employee benefits	6,718,067	1,447,714	8,165,781
Healthcare consultants	910,719	-	910,719
Laboratory	383,706	-	383,706
Professional fees	-	273,035	273,035
Consultants and contractuels	610,964	358,936	969,900
Consumable supplies	4,393,959	141,124	4,535,083
Occupancy	2,144,175	753,359	2,897,534
Insurance	145,692	51,189	196,881
Repairs and maintenance	137,770	48,405	186,175
Equipment rental	131,214	46,102	177,316
Telephone	815,336	286,469	1,101,805
Travel, conferences and meetings	244,037	114,841	358,878
Printing, publication and postage	139,820	65,797	205,617
Staff training	114,689	53,971	168,660
Personnel recruitment	330,931	88,382	419,313
Public information	136,034	-	136,034
Client services	51,520	-	51,520
Miscellaneous	401,840	320,309	722,149
Totals	<u>40,263,585</u>	<u>8,888,182</u>	<u>49,151,767</u>
 Depreciation and amortization	 <u>1,705,520</u>	 <u>599,237</u>	 <u>2,304,757</u>
 Total functional expenses	 <u>\$ 41,969,105</u>	 <u>\$ 9,487,419</u>	 <u>\$ 51,456,524</u>

See Notes to Financial Statements.

## Community Healthcare Network, Inc.

### Statement of Cash Flows Year Ended December 31, 2014

Operating activities:	
Change in unrestricted net assets	\$ 13,082,036
Adjustments to reconcile change in unrestricted net assets to net cash provided by operating activities:	
Nonoperating grants and contracts - construction projects	(457,484)
Gain on sale of investment	(925,840)
Gain from life insurance policies	(1,273,597)
Contribution to life insurance beneficiary	737,391
Provision for bad debt	1,000,000
Depreciation and amortization	2,304,757
Deferred rent	132,541
Changes in operating assets and liabilities:	
Patient services receivable	(3,161,274)
Grants and contracts receivable	129,647
Meaningful Use incentive receivable	(153,000)
Prepaid expenses and other current assets	(1,075,841)
Security deposits and other assets	(132,619)
Accounts payable and accrued expenses	443,880
Accrued compensation	784,467
Net cash provided by operating activities	<u>11,435,064</u>
Investing activities:	
Proceeds from sale of investment	793,750
Purchase of property and equipment	(1,489,743)
Increase in certificates of deposit	(526,718)
Increase in assets limited as to use	(1,999,748)
Increase in subvention receivable	(1,000,000)
Net cash used in investing activities	<u>(4,222,459)</u>
Financing activities - receipt of nonoperating DHHS grants for capital additions	<u>457,484</u>
Net increase in cash and cash equivalents	7,670,089
Cash and cash equivalents, beginning of year	<u>22,436,752</u>
Cash and cash equivalents, end of year	<u>\$ 30,106,841</u>
Supplemental disclosure of noncash investing activities:	
Capital acquisitions included in accounts payable and accrued expenses	<u>\$ 64,454</u>

See Notes to Financial Statements.

## Community Healthcare Network, Inc.

### Notes to Financial Statements December 31, 2014

#### Note 1 - Organization

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

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

#### Note 2 - Significant accounting policies

##### Basis of presentation

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

##### Use of estimates

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

##### Classification of net assets

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

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

*Temporarily restricted* net assets are subject to donor-imposed stipulations that may or will be met either by actions of CHN and/or the passage of time. When a donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and are reported in the statement of activities and change in net assets as net assets released from restriction. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the financial statements. There were no temporarily restricted net assets as of December 31, 2014.

*Permanently restricted* net assets are subject to donor-imposed stipulations that must be maintained permanently by CHN. There were no permanently restricted net assets at December 31, 2014.

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

CHN maintains its cash and cash equivalents in bank deposit accounts which, at times, may exceed Federally-insured limits. Assets limited as to use include cash and cash equivalents and certificates of deposit which have been designated by the Board of Directors to be used for capital projects. CHN has not experienced any losses in such accounts. At

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

### **Notes to Financial Statements December 31, 2014**

December 31, 2014, CHN's cash and cash equivalent balance exceeds Federally insured limits by approximately \$47,998,000. All highly liquid investments with maturities of three months or less when purchased are considered to be cash equivalents.

#### **Patient services receivable**

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

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

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

Financial instruments that potentially subject CHN to concentrations of credit risk consist principally of cash, cash equivalents, certificates of deposit, patient services receivable, assets limited as to use and a subvention receivable. CHN places its cash, cash equivalents, certificates of deposit and assets limited as to use with high-quality financial institutions. CHN monitors its financial institutions and the concentration of credit risk on a regular basis and does not anticipate nonperformance by the financial institutions. An allowance for doubtful accounts for patient services receivable is provided based upon management's assessment of individual accounts, past history of write-offs and collections, and current credit conditions. CHN also monitors the collectability of the subvention receivable by reviewing the audited financial statements of the not for profit corporation with which the subvention has been placed.

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

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

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

### **Notes to Financial Statements December 31, 2014**

#### **Property and equipment**

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

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

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

#### **Investments accounted for using the equity method**

CHN has a non-controlling interest that constitutes more than a minor interest in two limited liability companies. CHN accounts for its investment in the said entities using the equity method of accounting. The investment amounted to \$432,237 as of December 31, 2014 and is recorded under security deposits and other assets in the statement of financial position. CHN recognized revenue from the investment amounting to \$118,099 for the year ended December 31, 2014, which is recorded in other income in the statement of activities and change in net assets.

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

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

#### **Deferred rent**

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

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

### **Notes to Financial Statements December 31, 2014**

#### **Patient services revenue**

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

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

#### **Charity care and community benefit**

CHN is open to all patients, regardless of their ability to pay. In the ordinary course of business, CHN renders services to patients who are financially unable to pay for healthcare. CHN 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.

CHN 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, CHN recognizes revenue on the basis of its standard rates for services provided or on the basis of discounted rates, if negotiated or provided by policy. On the basis of historical experience, a significant portion of CHN's uninsured patients will be unable or unwilling to pay for the services provided. Thus, CHN records a significant provision for bad debts related to uninsured patients in the period the services are provided.

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

Based on the cost of patient services, charity care and community benefit for the year ended December 31, 2014 amounted to approximately \$740,000 and \$6,500,000, respectively.

#### **Contract services and other grants revenue**

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

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

### **Notes to Financial Statements December 31, 2014**

At December 31, 2014, CHN has received conditional grants and contracts from governmental entities in the aggregate amount of \$5,673,897 that have not been recorded in the accompanying financial statements as they have not been earned. These grants and contracts require CHN to provide certain services during specified periods. If such services are not provided during the periods, the governmental entities are not obligated to expend the funds allotted under the contracts.

#### **Contributions**

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

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

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

#### **Meaningful use incentives**

The American Recovery and Reinvestment Act of 2009 ("ARRA") amended the Social Security Act to establish one-time incentive payments under the Medicare and Medicaid programs for certain professionals that: (1) meaningfully use certified Electronic Health Record ("EHR") technology, (2) use the certified EHR technology for electronic exchange of health information to improve quality of healthcare, and (3) use the certified EHR technology to submit clinical and quality measures. These provisions of ARRA, together with certain of its other provisions, are referred to as the Health Information Technology for Clinical and Economic Health ("HITECH") Act. The criteria for meaningful use incentives will be staged in three steps over the course of six years and be paid out based on a transitional schedule. CHN's providers have met the criteria for Stage 1 and have earned \$556,750 from the Medicaid incentive program for the year ended December 31, 2014, and is included in the statement of activities and change in net assets. Meaningful use incentives receivable outstanding as of December 31, 2014 amounted to \$505,750.

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

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

#### **Functional expenses**

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

# Community Healthcare Network, Inc.

## Notes to Financial Statements December 31, 2014

### Performance indicator

The statement of activities and change in net assets includes operating income prior to nonoperating revenue as the performance indicator. Changes in unrestricted net assets which are excluded from the performance indicator include nonoperating DHHS grants for capital additions, gain from life insurance policies, gain on sale of investment and contribution to life insurance beneficiary.

### Tax status

CHN was incorporated as a not-for-profit corporation under the laws of the State of New York and is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Therefore, there is no provision for income taxes. CHN has no unrecognized tax benefits at December 31, 2014. CHN's Federal and state income tax returns prior to fiscal year 2011 are closed and management continually evaluates expiring statutes of limitations, audits, proposed settlements, changes in tax law and new authoritative rulings.

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

### Subsequent events

CHN has evaluated subsequent events through September 25, 2015, which is the date the financial statements were available to be issued.

### Note 3 - Patient services receivable, net

Patient services receivable, net consists of the following:

Medicaid and Medicaid Managed Care	\$ 6,160,644
Medicare	160,147
Private insurance	347,479
Self-pay	853,713
New York State Uncompensated Care	<u>1,860,339</u>
Total	<u>9,382,322</u>
Less allowance for doubtful accounts	<u>1,479,041</u>
Total	<u>\$ 7,903,281</u>

Patient services receivable are reduced by an allowance for doubtful accounts. In evaluating the collectability of patient services receivable, CHN 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. For receivables associated with services provided to patients who have third-party coverage, CHN analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts, if necessary (for example, for expected uncollectible deductibles and copayments on

## Community Healthcare Network, Inc.

### Notes to Financial Statements December 31, 2014

accounts for which the third-party payor has not yet paid, or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely). For receivables associated with self-pay patients (which include both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), CHN records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates or the discounted rates provided by CHN's policy and the amounts actually collected after all reasonable collection efforts have been exhausted is charged against the allowance for doubtful accounts.

CHN's allowance for doubtful accounts was 16 percent of patient services receivable at December 31, 2014. CHN had \$1,008,539 of direct write-offs for the year ended December 31, 2014. CHN has not changed its charity care or uninsured discount policies during the year ended December 31, 2014.

#### Note 4 - Grants and contracts receivable

Grants and contracts receivable consist of the following:

U.S. Department of Health and Human Services	\$ 568,192
New York State Department of Health:	
Family Planning Program	1,214,862
Comprehensive Adolescent Pregnancy Prevention	155,675
Youth Access Program	38,790
Prevention Services for Women	28,319
HIV Primary Care Program	43,359
Brooklyn Transgender Health Program	5,011
Public Health Solutions:	
Title X Family Planning Program	57,245
Sexual Behavioral Health	179,115
Ryan White Part A - Early Intervention Services:	
Social Network Strategy Testing in Non-Clinical Settings	5,696
Title X HIV	59,893
Infertility Prevention Project	20,548
Health Research, Inc.:	
Ryan White Part B: MAI/Access to Healthcare (Bronx)	82,929
Ryan White Part B: HIV/AIDS Supporting Services	30,429
New York City Department of Health and Mental Hygiene:	
Infant Mortality Program	5,250
Other	<u>27,621</u>
Total	<u>\$ 2,522,934</u>

## Community Healthcare Network, Inc.

### Notes to Financial Statements December 31, 2014

#### Note 5 - Subvention receivable

On September 4, 2014, CHN entered into a subvention subscription agreement (the "agreement") with Amida Care, Inc. ("Amida Care"), a not-for-profit corporation. The agreement was entered into in accordance with sections 504 and 505 of the New York Not-for-Profit Corporation Law ("NPCL"). Pursuant to the agreement, CHN made payments to Amida Care amounting to \$1,000,000 in exchange for a subvention certificate. The subvention certificate will be repayable to CHN provided that CHN is in compliance with the agreement, with its participating provider agreement with Amida Care, and with any material obligations it owes to Amida Care; the repayment of the subvention receivable is subject to approval by the board and/or members of Amida Care and regulatory approval by the Commissioner of Health. The amount payable to CHN shall be the subvention amount plus any additional subvention made multiplied by the base rate (4% as of December 31, 2014). The base rate is calculated as 1% plus the prime interest rate as announced by The Wall Street Journal, (4.25% as of December 31, 2014) subject to the maximum rate which is 2/3 of the maximum interest rate authorized pursuant to Section 5-501 of the New York General Obligations Law or 4%. The interest shall accrue in a non-compounded manner.

The subvention certificate qualifies CHN as a Class B Member of Amida Care, provided CHN continues to participate in Amida Care's managed care program in accordance with its participating provider agreement. Termination of the participating provider agreement shall be construed as CHN's withdrawal as a Class B Member of Amida Care.

#### Note 6 - Property and equipment, net

Property and equipment, net, consists of the following:

Land	\$ 37,931
Building and building improvements	12,337,835
Leasehold improvements	6,683,828
Furniture and equipment	<u>8,493,003</u>
Total	<u>27,552,597</u>
Less accumulated depreciation and amortization	<u>16,967,033</u>
Total	<u>\$10,585,564</u>

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

#### Note 7 - Line of credit

CHN has a revolving line of credit with a bank in the amount of \$2,500,000 maturing on August 31, 2016. Interest is charged on any outstanding balance at the greater of 4% or the prime rate plus 0.50% (3.75% as of December 31, 2014). The line of credit is secured by a first security interest in all business assets of CHN. There was no amount outstanding on the line of credit at December 31, 2014.

**Community Healthcare Network, Inc.**

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

**Note 8 - Contract services and other grants revenue**

Contract services and other grants revenue consists of the following:

New York State Department of Health:	
Family Planning Program	\$ 5,354,261
Comprehensive Adolescent Pregnancy Prevention	599,812
Youth Access Program	257,666
Primary Care HIV Program	247,643
New York State Prevention Services for Women	193,337
Legislative add-on	25,000
Brooklyn Transgender Health Program	5,011
New York City Department of Health and Mental Hygiene:	
Infant Mortality	74,975
Family Planning	267,257
Health Research, Inc.:	
Ryan White Part B - MAI/Access to Healthcare (Bronx)	362,330
Ryan White Part B - HIV/AIDS Supportive Services	193,695
Ryan White Part B - Women's Supportive Services	44,902
Public Health Solutions:	
Title X Family Planning Program	247,527
Sexual and Behavioral Health	256,735
Communities of Color - HIV Prevention	60,937
Ryan White Part A - Early Intervention Services: Social Network Strategy Testing in Non-Clinical Settings	44,930
Infertility Prevention Project	64,884
Title X HIV	183,572
Gilead Sciences, Inc.	204,000
The Paul Rapoport Foundation	106,224
Metroplus Health Plan	85,642
Fund for Public Health in New York, Inc.:	
CDC Teen Pregnancy Prevention	20,000
Healthcare Innovation Challenge (Parachute NYC)	18,753
The New York Community Trust:	
Complementary and Alternative Medicine Services	86,198
New York City AIDS Fund	10,015
Other	<u>12,667</u>
 Total operating contract services and other grants	 <u><u>\$ 9,027,973</u></u>

**Community Healthcare Network, Inc.**

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

**Note 9 - DHHS grants**

CHN recognized grant revenue from the DHHS as follows:

<u>Grant Number</u>	<u>Grant Period</u>	<u>Total Grant Amount</u>	<u>Operating Revenue</u>	<u>Nonoperating Revenue</u>	<u>Total DHHS Grant Revenue</u>
6 H80CS00597-12-10	05/01/13- 04/30/14	\$ 3,936,649	\$ 1,485,468	\$	\$ 1,485,468
6 H80CS00597-13-14	05/01/14 - 04/30/15	4,738,479	2,904,679		2,904,679
3 H76HA00049-23-03	01/01/14 - 12/31/14	912,515	912,515		912,515
6 C8BCS23877-01-05	05/01/12- 07/30/14	500,000		457,484	457,484
6 H97HA24967-02-03	09/01/13 - 08/31/14	<u>456,268</u>	<u>309,328</u>		<u>309,328</u>
Totals		<u>\$ 10,543,911</u>	<u>\$ 5,611,990</u>	<u>\$ 457,484</u>	<u>\$ 6,069,474</u>

**Note 10 - Patient services revenue, net**

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

Medicaid and Medicaid Managed Care	\$ 36,002,531
Medicare	167,717
Private insurance	809,186
Self-pay	1,372,734
Pharmacy and other	215,718
New York State Uncompensated Care	<u>8,111,327</u>
Total	<u>\$ 46,679,213</u>

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

## Community Healthcare Network, Inc.

### Notes to Financial Statements December 31, 2014

#### Note 11 - Sale of investment in a special needs plan

In 2013 CHN sold its investment in a special needs plan; the sales price for the plan was contingent on certain future events. In 2014, CHN recognized revenue from the sale of such investment amounting to \$925,840 which is included in non-operating revenue in the statement of activities and change in net assets; CHN also has a receivable from the sale as of December 31, 2014 amounting to \$132,090 which is included in prepaid expenses and other current assets in the statement of financial position.

#### Note 12 - Pension plans

Through December 1, 2014, CHN maintained a noncontributory retirement plan which covered all employees meeting certain eligibility requirements. Contributions to the plan were based on a percent of salaries. There were no contributions made for the year ended December 31, 2014. The plan was liquidated effective December 1, 2014.

In addition, CHN sponsors a contributory 403(b) Tax-Sheltered Annuity Savings and Retirement Plan (the "403(b) plan") for all employees meeting certain eligibility requirements. Contributions to the plan are based on elective deferrals and matching. CHN accrued employer contributions to the 403(b) plan of \$490,189 for the year ended December 31, 2014 which is included in accrued compensation in the statement of financial position.

#### Note 13 - Leases

There are lease agreements which provide for occupancy of the properties or usage of the vehicle with expiration dates ranging from 2015 to 2025. For the year ended December 31, 2014, rent expense amounted to \$1,877,147. Future minimum lease payments in each of the five years subsequent to December 31, 2014 and thereafter are as follows:

<u>Year ending December 31,</u>	<u>Amount</u>
2015	\$ 1,809,372
2016	1,688,357
2017	1,106,987
2018	1,062,082
2019	938,483
Thereafter	<u>4,690,387</u>
Total	<u>\$11,295,668</u>

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

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

### **Notes to Financial Statements December 31, 2014**

#### **Note 14 - Related party transactions**

On August 1, 2013, CHN entered into an operating agreement with 4 other entities to provide for the organization and continuation of Queens Coordinated Care Partners, LLC ("QCCP"). As a member organization, CHN contributed \$150,000 cumulatively through December 31, 2014 for QCCP's capitalization. CHN recognized \$69,268 of loss from its investment in QCCP for the year ended December 31, 2014 which is included in other income in the statement of activities and change in net assets. The investment in QCCP was also reduced by the amount of loss incurred, bringing the balance of the investment to \$80,732 as of December 31, 2014. The investment is recorded in security deposits and other assets in the statement of financial position. In accordance with the operating agreement, CHN provided certain administrative services to QCCP for which CHN recognized \$267,672 of administrative services fees in 2014; such amount is included in other income in the statement of activities and change in net assets and in prepaid expenses and other current assets in the statement of financial position.

In 2012, CHN entered into an operating agreement with 7 other entities to provide for the organization and continuation of Community Care Management Partners, LLC ("CCMP"). As a member organization, CHN contributed \$164,138 for CCMP's capitalization. The investment is recorded in security deposits and other assets in the statement of financial position. CHN recognized \$118,099 in revenue from its investment in CCMP for the year ended December 31, 2014 which is recorded under other income in the statement of activities and change in net assets and as an increase in the investment in CCMP.

#### **Note 15 - Concentration of source or supply of labor**

75% of CHN's employees are members of the 1199SEIU United Healthcare Workers East (the "union"). CHN's contract with the union is subject to renegotiation in 2017. CHN's other employees are not represented by a union.

#### **Note 16 - Commitments and contingencies**

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

CHN provides medical and prescription insurance coverage for all eligible employees. Under the terms of the insurance policy, CHN is at risk for covered claims submitted, not to exceed \$125,000 per person per year. CHN is indemnified for claims in excess of \$3 million in the aggregate by the stop-loss insurance policy coverage. As of December 31, 2014, CHN has recorded \$301,500 of claims liability in relation to the medical and prescription insurance; it is included in accounts payable and accrued expenses in the statement of financial position.

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

### **Notes to Financial Statements December 31, 2014**

In 2014, the key employee who is covered by a deferred compensation agreement passed away. CHN recognized the cash surrender value of the life insurance policies which comprised the deferred compensation agreement, as a receivable from the insurance company and a liability to the deceased's estate or beneficiary amounting to \$737,391. The receivable from the insurance company is included in prepaid expenses and other current assets and the liability is included in accounts payable and accrued expenses in the statement of financial position.

CHN also recorded the receivable from an insurance company for the face value of a keyman term life insurance covering the same key employee, including interest earned on the face value as of December 31, 2014. The total amount of \$542,933 is included in prepaid expenses and other current assets in the statement of financial position.

CHN recognized the total value gained from all the life insurance policies amounting to \$1,273,597 as non-operating revenue in the statement of activities and change in net assets. Meanwhile, CHN recorded the contribution of the \$737,391 cash surrender value of the life insurance policies to the key employee's estate or beneficiary as a non-operating expense in the statement of activities and change in net assets.

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

CHN purchases professional and general liability insurance to cover medical malpractice claims in excess of the FTCA coverage. There are no known claims or incidents that may result in the assertion of additional claims arising from services provided to patients as of December 31, 2014.

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

**Community Healthcare Network, Inc.**

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

<b>Federal Grantor/Pass Through Grantor / Program Title</b>	<b>Federal CFDA Number</b>	<b>Agency or Pass- Through Grantor's Number</b>	<b>Federal Expenditures</b>
Federal Awards:			
U.S. Department of Health and Human Services:			
Direct Programs:			
Health Centers Cluster:			
Consolidated Health Centers	93.224	N/A	\$ 1,923,366
Affordable Care Act (ACA) Grants for New and Expanded Services under the Health Center Program	93.527	N/A	<u>2,466,781</u>
Total Health Centers Cluster			<u>4,390,147</u>
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918	N/A	912,515
Affordable Care Act (ACA) Grants for Capital Development in Health Centers	93.526	N/A	457,484
Special Project of National Significance	93.928	N/A	309,328
Passed through New York State Department of Health:			
Family Planning Services	93.217	C027018	1,383,195
Passed through Public Health Solutions:			
Family Planning Services	93.217	13-CHN-02	183,572
Title X HIV	93.217	13-CHN-01	<u>247,527</u>
			<u>1,814,294</u>
Passed through New York State Department of Health:			
Maternal and Child Health Services Block Grant to the States	93.994	C027018	922,130
Medical Assistance Program	93.778	C026970	282,858
Passed through Public Health Solutions:			
HIV Emergency Relief Project Grants	93.914	11-EIN-519	44,930
Preventive Health Services - Sexually Transmitted Diseases Control Grants	93.977	14-CHN-01	64,884
Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243	13-SBH-519	110,396
HIV Prevention Activities Health Department Based	93.940	13-SBH-519	89,857
Passed through Health Research Inc.:			
		3771-05/3771-06/3778-05/3778-06/ 3723-05/ 4062-04/ 4062.05	
HIV Care Formula Grants	93.917		600,927
Passed through New York City Department of Health and Mental Hygiene:			
Immunization Cooperative Agreements	93.268	Not Available	765,715
Passed through Fund for Public Health in New York, Inc.:			
Health Care Innovation Awards (HCIA)	93.610	80442/80481	18,753
Teenage Pregnancy Prevention Program	93.297	80319/80549	20,000
Passed through North Shore University Hospital:			
Coordinated Services and Access to Research for Women, Infants, Children and Youth	93.153	Not Available	<u>5,400</u>
Total Federal awards - U.S. Department of Health and Human Services			<u>\$ 10,809,618</u>

See Notes to Schedule of Expenditures of Federal Awards.

## Community Healthcare Network, Inc.

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

#### **Note 1 - Basis of presentation**

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

#### **Note 2 - Basis of accounting**

The accompanying Schedule is presented using the accrual basis of accounting. The information in the Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audit of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

#### **Note 3 - 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 due to program expenditures exceeding grant or contract budget limitations or agency-matching or in-kind contributions which are not included in the Schedule.

#### **Note 4 - Subrecipients**

No Federal awards were provided to subrecipients.

#### **Note 5 - Nonmonetary assistance**

Donated and nonmonetary assistance is reported in the Schedule at the fair value of the vaccinations received. The total Federal share of vaccinations distributed by CHN amounted to \$765,715 and is included in the statement of activities and change in net assets. It is also included in the Schedule.

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

To the Board of Directors  
Community Healthcare Network, Inc.

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Community Healthcare Network, Inc. ("CHN"), which comprise the statement of financial position as of December 31, 2014, and the related statements of activities and change 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 September 25, 2015.

*Internal Control over Financial Reporting*

In planning and performing our audit of the financial statements, we considered CHN's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of CHN's internal control. Accordingly, we do not express an opinion on the effectiveness of CHN's internal control.

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

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

### *Compliance and Other Matters*

As part of obtaining reasonable assurance about whether CHN's financial statements are free 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 black ink that reads "CohnReznick LLP". The signature is written in a cursive, flowing style.

New York, New York  
September 25, 2015

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

To the Board of Directors  
Community Healthcare Network, Inc.

*Report on Compliance for Each Major Federal Program*

We have audited Community Healthcare Network, Inc.'s ("CHN") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of CHN's major Federal programs for the year ended December 31, 2014. CHN's major Federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

*Management's Responsibility*

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

*Auditor's Responsibility*

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

We believe that our audit provides a reasonable basis for our opinion on compliance for each major Federal program. However, our audit does not provide a legal determination of CHN's compliance.

*Opinion on Each Major Federal Program*

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

### *Other Matters*

The results of our auditing procedures disclosed another instance of noncompliance, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2014-001. Our opinion on each major Federal program is not modified with respect to this matter.

CHN's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. CHN's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

### *Report on Internal Control Over Compliance*

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

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

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a certain deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2014-001 that we consider to be a significant deficiency.

CHN's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. CHN's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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

A handwritten signature in black ink that reads "CohnReznick LLP". The signature is written in a cursive, flowing style.

New York, New York  
September 25, 2015

**Community Healthcare Network, Inc.**

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

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

Financial Statements:

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

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

Noncompliance material to financial statements noted?  yes  no

Federal Awards:

Internal control over major programs:

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

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

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

Identification of major programs:

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

Dollar threshold used to distinguish between type A and B programs \$324,289

Auditee qualified as low-risk auditee?  yes  no

**Community Healthcare Network, Inc.**

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

**Section II - Financial Statement Findings:**

None

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

Item 2014-001 Special Tests and Provisions - Board Composition: U.S. Department of Health and Human Services, Health Centers Cluster: Consolidated Health Centers (CFDA 93.224) and Affordable Care Act (ACA) Grants for New and Expanded Services under the Health Center Program (CFDA 93.527)

Criteria:

In accordance with the Health Center Governance PIN 2014-01, eligible section 330 grantees must meet the following requirements: (1) a majority of members of the Board (at least 51%) must be individuals who are served by the Center; (2) Patient board members must be a current registered patient of the health center and must have accessed the health center in the past 24 months to receive at least one or more in-scope service(s) that generated a health center visit; (3) As a group, patient members of the board must reasonably represent individuals who are served by the health center in terms of race, ethnicity and sex; (4) A legal guardian of a patient who is a dependent child or adult, or a legal sponsor of an immigrant, may also be considered a patient for purposes of board representation.

Statement of Condition:

For the year ended December 31, 2014, CHN did not comply with the Health Resources and Services Administration (HRSA) governance requirement on board composition, as provided in the Health Center Governance PIN 2014-01. Only five (5) out of fifteen (15) (or 33%) members of the board were registered and seen as patients during the years 2014 and 2013.

Questioned Costs:

None.

Cause:

CHN Board members fell short of compliance with HRSA governance requirements.

Effect:

CHN fell short of compliance with the Special Tests and Provisions requirement of OMB Circular A-133 and HRSA PIN 2014-01.

Recommendation:

We recommend that CHN establish policies and procedures to monitor compliance with Board governance requirements.

Management Response:

Management concurs with the finding and subsequent to year end has established the necessary policies and procedures to correct the issue.

**Community Healthcare Network, Inc.**

**Schedule of Prior Year's Findings  
Year Ended December 31, 2014**

There were no prior audit findings.