

**CORNELL SCOTT - HILL HEALTH CORPORATION**  
**FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED JUNE 30, 2014 AND 2013**

# CORNELL SCOTT - HILL HEALTH CORPORATION

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## INDEPENDENT AUDITORS' REPORT

The Board of Directors  
**Cornell Scott - Hill Health Corporation**

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Cornell Scott - Hill Health Corporation, which comprise the statement of financial position as of June 30, 2014, and the related statements of activities and changes in net assets 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.

### *Auditors' 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 auditors' 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 Cornell Scott - Hill Health Corporation as of June 30, 2014 and the results of its changes in 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***

The 2013 financial statements were audited by other auditors whose report dated November 6, 2013, expressed an unmodified opinion on those statements.

As part of our audit of the 2014 financial statements, we also audited adjustments described in Note 2 that were applied to restate the 2013 financial statements. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the 2013 financial statements of Cornell Scott - Hill Health Corporation other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 2013 financial statements as a whole.

## ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued a report dated November 26, 2014 on our consideration of Cornell Scott - Hill Health Corporation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the 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 Cornell Scott - Hill Health Corporation's internal control over financial reporting and compliance.

*Marcum LLP*

Hartford, CT  
November 26, 2014

# CORNELL SCOTT - HILL HEALTH CORPORATION

## STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2014 AND 2013

	2014	2013
		<i>(Restated)</i>
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 4,261,984	\$ 3,010,392
Investments	120,749	100,507
Receivables		
Grants and contracts	537,698	1,062,065
Patient fees, less allowance of doubtful accounts	2,207,065	1,968,010
Other receivables	52,306	10,001
Prepaid expenses and other assets	303,445	142,132
Pharmaceutical inventory	<u>157,683</u>	<u>141,562</u>
<b>Total Current Assets</b>	<u>7,640,930</u>	<u>6,434,669</u>
<b>Property and Equipment - net</b>	16,350,269	17,255,335
<b>Other Non-Current Assets</b>		
Restricted cash	653,626	653,832
Investments, at cost	83,333	83,333
Deferred financing costs - net	226,275	236,677
Other assets	<u>27,418</u>	<u>27,459</u>
<b>Total Other Non-Current Assets</b>	<u>990,652</u>	<u>1,001,301</u>
<b>Total Assets</b>	<u>\$ 24,981,851</u>	<u>\$ 24,691,305</u>

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

# CORNELL SCOTT - HILL HEALTH CORPORATION

## STATEMENTS OF FINANCIAL POSITION (CONTINUED)

JUNE 30, 2014 AND 2013

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	<u>2014</u>	<u>2013</u>
		<i>(Restated)</i>
<b>Liabilities and Unrestricted Net Assets</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 2,310,317	\$ 2,554,607
Accrued expenses	3,277,703	3,170,049
Current maturities of long-term debt	703,015	610,571
Deferred grants and other revenues	<u>508,449</u>	<u>247,583</u>
<b>Total Current Liabilities</b>	<u>6,799,484</u>	<u>6,582,810</u>
<b>Non-Current Liabilities</b>		
Long-term debt - net of current portion	<u>7,252,882</u>	<u>7,955,897</u>
<b>Total Non-Current Liabilities</b>	<u>7,252,882</u>	<u>7,955,897</u>
<b>Total Liabilities</b>	14,052,366	14,538,707
<b>Unrestricted Net Assets</b>	<u>10,929,485</u>	<u>10,152,598</u>
<b>Total Liabilities and Unrestricted Net Assets</b>	<u>\$ 24,981,851</u>	<u>\$ 24,691,305</u>

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

# CORNELL SCOTT - HILL HEALTH CORPORATION

## STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

**FOR THE YEARS ENDED JUNE 30, 2014 AND 2013**

	2014	2013
		<i>(Restated)</i>
<b>Revenues</b>		
Patient fee revenue	\$ 39,587,330	\$ 38,093,929
Recovery of (provision for) uncollectible accounts	<u>395,124</u>	<u>(856,715)</u>
Net patient fee revenue after recovery of (provision for) uncollectible accounts	<u>39,982,454</u>	<u>37,237,214</u>
Grants and contracts	10,387,640	10,815,670
Women, infants and children food benefits	1,020,855	1,461,935
Vaccines and donated pharmaceuticals	293,324	983,499
Contract revenue	125,795	50,307
Other	<u>578,836</u>	<u>387,213</u>
<b>Total Revenues</b>	<u>52,388,904</u>	<u>50,935,838</u>
<b>Expenses</b>		
Salaries and related expenses	34,694,408	32,402,468
Contracted services	2,904,926	2,918,888
Pharmaceutical and other supplies	2,683,625	2,631,800
Repairs and maintenance expense	2,145,775	2,033,973
Depreciation and amortization	1,946,652	1,910,858
Occupancy	1,114,577	982,226
Women, infants and children food benefits	1,020,855	1,461,935
Service and maintenance agreements	1,011,857	988,055
Advertising and recruiting	868,368	460,324
Interest	581,291	534,621
Patient food and laundry	577,926	558,384
Pension expense	576,233	522,873
Professional expenses	328,200	369,019
Communication	315,903	362,043
Insurance	309,851	288,828
Vaccines and donated pharmaceuticals	293,324	983,499
Office supplies and other	220,209	419,220
Payroll processing fees and employee relations	203,975	143,013
Transportation	155,570	107,460
Books, subscriptions and licenses	<u>103,363</u>	<u>127,001</u>
<b>Total Expenses</b>	<u>52,056,888</u>	<u>50,206,488</u>
<b>Income from Operations</b>	<u>332,016</u>	<u>729,350</u>
<b>Other Income</b>		
Net unrealized gain on investments	15,028	21,338
Capital grants	419,843	122,524
Gain on sale of assets	10,000	--
Discontinued operations	<u>--</u>	<u>(82,781)</u>
<b>Total Other Income</b>	<u>444,871</u>	<u>61,081</u>
<b>Change in Unrestricted Net Assets</b>	776,887	790,431
<b>Unrestricted Net Assets - Beginning</b>	<u>10,152,598</u>	<u>9,362,167</u>
<b>Unrestricted Net Assets - Ending</b>	<u>\$ 10,929,485</u>	<u>\$ 10,152,598</u>

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

# CORNELL SCOTT - HILL HEALTH CORPORATION

## STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

	2014	2013
<b>Cash Flows from Operating Activities</b>		
Change in unrestricted net assets	\$ 776,887	\$ 790,431
Adjustments to reconcile change in unrestricted net assets to net cash provided by operating activities:		
(Recovery of) provision for uncollectible accounts	(395,124)	856,715
Depreciation and amortization	1,946,652	1,910,858
Capital grants	(419,843)	(122,524)
Gain on sale of assets	(10,000)	--
Net unrealized gain on investments	(15,028)	(21,338)
Changes in assets and liabilities:		
Grant and contracts receivable	524,367	(490,381)
Patient fees receivable	156,069	(570,952)
Prepaid expenses and other assets	(193,175)	(44,347)
Pharmaceutical inventory	(16,121)	(21,367)
Accounts payable	(244,290)	(1,394,097)
Accrued expenses	107,654	679,440
Deferred grant and other revenue	260,866	4,200
<b>Net Cash Provided by Operating Activities</b>	<u>2,478,914</u>	<u>1,576,638</u>
<b>Cash Flows from Investing Activities</b>		
Proceeds from the sale of property and equipment	10,000	--
Donated assets	(5,040)	(4,490)
Purchase of property and equipment	(1,041,760)	(393,050)
<b>Net Cash Used in Investing Activities</b>	<u>(1,036,800)</u>	<u>(397,540)</u>
<b>Cash Flows from Financing Activities</b>		
Restricted cash	206	(206)
Capital grants	419,843	122,524
Principal payments on long-term debt	(610,571)	(182,409)
<b>Net Cash Used in Financing Activities</b>	<u>(190,522)</u>	<u>(60,091)</u>
<b>Net Increase in Cash and Cash Equivalents</b>	1,251,592	1,119,007
<b>Cash and Cash Equivalents - Beginning</b>	<u>3,010,392</u>	<u>1,891,385</u>
<b>Cash and Cash Equivalents - End of year</b>	<u>\$ 4,261,984</u>	<u>\$ 3,010,392</u>
<b>Supplemental Disclosure of Cash Flow Information</b>		
Cash paid for interest	<u>\$ 516,772</u>	<u>\$ 534,621</u>
Non-cash financing of property and equipment acquisitions	<u>\$ --</u>	<u>\$ 391,735</u>

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

# CORNELL SCOTT - HILL HEALTH CORPORATION

## NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

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### NOTE 1 – NATURE OF OPERATIONS

#### *GENERAL*

Cornell Scott - Hill Health Corporation (the Corporation) is a private, non-profit federally qualified community health center established in 1968 that provides primary health care to low income and disadvantaged individuals in New Haven, Connecticut and certain surrounding locations.

### NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### *PRIOR PERIOD ADJUSTMENT*

During 2014, management discovered that certain property and equipment had not been properly depreciated resulting in an understatement of accumulated depreciation and a related overstatement of unrestricted net assets of July 1, 2012. The accompanying comparative financial statements for the year ended June 30, 2013 have been restated to correct this miscalculation. The resulting adjustment to the previously issued financial statements was a reduction to unrestricted net assets and an increase to accumulated depreciation of approximately \$112,000. The change in net assets for 2013 as previously reported was not impacted by this adjustment.

#### *BASIS OF ACCOUNTING*

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP), as promulgated by the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC).

#### *USE OF ESTIMATES*

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates made by management include contractual and bad debt allowances against patient fee revenues and related receivables. Actual events and results could differ from those assumptions and estimates.

# CORNELL SCOTT - HILL HEALTH CORPORATION

## NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

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### NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### *NET ASSETS*

The Corporation follows the provisions of FASB ASC 958, *Not-for-Profit Entities, Presentation of Financial Statements*. FASB ASC 958 establishes standards for external financial reporting by not-for-profit organizations. Resources are reported for accounting purposes, in separate classes of net assets based on the existence or absence of donor-imposed restrictions. In the accompanying financial statements, net assets that have similar characteristics are combined into the following categories:

*Unrestricted* – Unrestricted net assets represent available resources other than donor-restricted contributions.

*Temporarily Restricted* – Temporarily restricted net assets represent contributions that are restricted either as to purpose or as to time of expenditure. The Corporation has no temporarily restricted net assets as of June 30, 2014 or 2013.

*Permanently Restricted* – Permanently restricted net assets represent contributions received with the donor restriction that the principal be invested in perpetuity and that only the income earned thereon will be available for operations. The Corporation has no permanently restricted net assets as of June 30, 2014 or 2013.

#### *CASH AND CASH EQUIVALENTS*

The Corporation considers all highly liquid securities, with maturities of three months or less, when purchased, to be cash equivalents.

#### *PATIENT ACCOUNTS RECEIVABLE*

Patient accounts receivable result from the various health care services provided by the Corporation. Patient accounts receivable are reduced by a provision for uncollectible accounts. In evaluating the collectability of patient accounts receivable, the Corporation analyzes and identifies trends for each of its major payer sources of revenue to estimate the appropriate allowance for doubtful accounts. As of June 30, 2014 and 2013, the allowance for uncollectible accounts is \$203,383 and \$3,642,378, respectively.

# CORNELL SCOTT - HILL HEALTH CORPORATION

## NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

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### NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Management regularly reviews information about these major payer sources of revenue when evaluating the sufficiency of the allowance for doubtful accounts. For receivables associated with services provided to patients with third-party coverage, the Corporation analyzes contractually due amounts and provides an allowance, if necessary. For receivables associated with self-pay patients, including patients with insurance and a deductible and copayment, the Corporation records a provision for bad debts in the period of service on the basis of past experience of patients unable or unwilling to pay the service fee for which they are financially responsible. The difference between the standard rates and the amounts actually collected after all reasonable collection efforts have been exhausted is charged against the allowance for doubtful accounts.

#### *PROPERTY AND EQUIPMENT*

Property and equipment are carried at cost, net of accumulated depreciation. Betterments and major renewals are capitalized and maintenance and repairs are charged to expense as incurred.

Depreciation is provided using the straight-line method over the estimated useful lives of the assets, which range from three to twenty-five years. The Corporation's capitalization threshold is \$2,500. Additions and improvements which extend the life of the assets are capitalized, and normal repairs and maintenance are charged to current operations. The costs and related accumulated depreciation of assets retired or disposed of are removed from the related accounts and the resulting gain or loss is reflected in income.

In connection with Federal and State financial assistance, certain capitalized assets are subject to lien by the Federal Government and State of Connecticut.

#### *DEFERRED FINANCING FEES*

In connection with the issuance of the 2006 Hill Health Corporation Issue, Connecticut Facility Revenue Bonds - Series 2006 (the Bonds) (further described in Note 10), the Corporation incurred debt issuance costs. Such costs were deferred and are being amortized on the straight-line basis over the life of the Bonds.

#### *IMPAIRMENT OF LONG-LIVED ASSETS*

The Corporation reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Recoverability of these assets is determined by comparing the forecasted undiscounted net cash flows of the operations to which the assets relate to the carrying amount.

# CORNELL SCOTT - HILL HEALTH CORPORATION

## NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

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### NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

If the operation is determined to be unable to recover the carrying amount of its assets, the intangible assets are written down first, followed by other long-lived assets of the operations to fair value. Fair value is determined based on discounted cash flows or appraised values, depending on the nature of the assets. As of June 30, 2014 and 2013, there were no impairment losses recognized for long-lived assets.

#### *PHARMACEUTICAL INVENTORY*

Inventories for the pharmacy are recorded at net realizable value and maintained on the First-In-First-Out (FIFO) basis at the lower of cost or market value.

#### *INVESTMENTS*

Investments in equity securities with readily determinable fair values are measured at fair value in the statements of financial position. Investment income or loss (including realized gains and losses on investments, interest and dividends) are included in income from operations unless the income or loss is restricted by donor or law.

#### *REVENUE RECOGNITION*

##### *NET PATIENT SERVICE REVENUE*

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered, including retroactive adjustment under reimbursement agreements with third-party payers. Revenue under third-party payer agreements is subject to audit and retroactive adjustment. Provisions for third-party payer settlements are provided in the period the related services are rendered and adjusted in the future periods, as final settlements are determined. See Note 4 for additional information relative to net patient service revenue recognition and third-party payer programs.

##### *GRANT REVENUE*

Revenues received from the granting agencies or other outside parties for particular operating purposes or programs are classified as unrestricted net assets and are reported as revenue in the period designated by the grantor and earned in proportion as the Corporation incurs the expenditures.

# CORNELL SCOTT - HILL HEALTH CORPORATION

## NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

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### NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Grant funds applicable to a future period, received but not earned, are classified as deferred revenue. In instances where revenue exceeds expenses for granting agency programs, due to third-party reimbursement or patient fees, (1) the revenue in excess of expenses is reversed and recorded as a payable to the granting agency based on the relation of the total granting agency grant revenue to total revenue, pending the granting agency response to a request for carryover of the federal and state portion, or (2) to apply the excess of revenues over expenses to other granting agency programs per the granting agency's approval. In cases where expenses exceed revenues for specific programs, the deficit is funded by the Corporation general operations.

Various funding agencies periodically review the Corporation records. If surplus balances are determined to exist, such agencies may require the Corporation to return any such balances.

#### *ESTIMATED MEDICAL MALPRACTICE AND WORKERS' COMPENSATION COSTS*

The provision for estimated medical malpractice and workers' compensation claims includes estimates of the ultimate costs for both reported claims and claims incurred but not reported. The Corporation accounts for its insurance claims and related insurance recoveries in accordance with the provisions of FASB ASC 954-450-25-2, *Health Care Entities*, which indicates that health care entities should not net insurance recoveries against a related claim liabilities. As of December 31, 2014 and 2013, the Corporation has not recorded an insurance recoverable or insurance payable.

#### *INCOME FROM OPERATIONS*

Activities other than in connection with providing health care services are considered to be non-operating and are included in other income on the statements of activities and changes in net assets. Other income consists primarily of unrealized gains and losses on investments, income from capital grants, gains and losses on sales of assets and losses on discontinued operations.

#### *INCOME TAXES*

The Corporation is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. The Corporation is also exempt from state income taxes. Accordingly, no provision for taxes is included.

Management has analyzed the tax positions taken and has concluded that as of June 30, 2014 and 2013, there are no uncertain tax positions taken or expected to be taken in that would require recognition of a liability (or asset) or disclosure in the financial statements.

# CORNELL SCOTT - HILL HEALTH CORPORATION

## NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

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### NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Corporation is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. The Corporation's prior three years are open and subject to examination by the Internal Revenue Service.

#### *RISKS AND UNCERTAINTIES*

The Corporation invests in a variety of investment securities which are exposed to various risks, such as interest rate risk, financial market risk, currency risk and credit risk. Due to the level of risk associated with investment securities, coupled with the economic events, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the Corporation's June 30, 2014 and 2013 financial statements.

Revenue is recognized ratably over the period of the grant or contract and is recognized based upon actual expenses incurred for prepayment and other reimbursement grants or contracts. Any unexpended and unexpired amounts are recorded as deferred revenue. Such grant and contract revenues are treated as unrestricted for financial statement presentation because the grant and contract requirements are satisfied in the year in which the revenue is recognized.

Financial instruments that potentially subject the facility to concentrations of credit risk consist principally of cash accounts with financial institutions, which from time to time exceed the Federal depository insurance coverage limit. The Corporation believes it is not exposed to any significant credit risk or cash and cash equivalents.

#### *INTEREST INCOME*

Interest earned on nonfederal funds is recorded as income on the accrual basis of accounting. Interest earned on federal funds is not recorded as income as it is returned to the Public Health Service in compliance with OMB Circular A-110.

#### *DONATED GOODS AND SERVICES*

The Corporation administers vaccines distributed through the State of Connecticut Department of Public Health. Accordingly, the value of the vaccines provided to the patient population is reported as both revenue and expense in the statement of activities and changes in net assets. For the years ended June 30, 2014 and 2013 the value of vaccines recognized was \$284,189 and \$883,684, respectively.

# CORNELL SCOTT - HILL HEALTH CORPORATION

## NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

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### NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In addition, the Corporation administers The Women, Infants and Children food benefits program wherein eligible participants receive vouchers to purchase certain food items. Accordingly, the value of food benefits provided to participants, as determined by the State of Connecticut, is reported as both revenue and expense in the statement of activities and changes in net assets. For the years ended June 30, 2014 and 2013 the food benefits were \$1,020,855 and \$1,461,935, respectively.

The Corporation participates in the "Share-the-Care" program with Pfizer Pharmaceuticals (Pfizer), where eligible participants receive certain medications which are provided for by Pfizer. The pharmaceuticals are recorded as both revenue and expense in the statement of activities and changes in net assets. For the years ended June 30, 2014 and 2013, the medications donated were \$9,135 and \$99,815, respectively.

A number of unpaid volunteers have made contributions of their time to the Corporation. The value of this contributed time is not recorded in the financial statements since the criteria for recognition under FASB ASC Topic 958-605, *Not for Profit Entities*, has not been satisfied.

#### ***ELECTRONIC HEALTH RECORD REIMBURSEMENT***

The Health Information Technology for Economic and Clinical Health Act (the HITECH Act) was enacted into law on February 17, 2009 as part of the American Recovery and Reinvestment Act of 2009 (ARRA). The HITECH Act includes provisions designed to increase the use of electronic health records by both physicians and hospitals. Beginning with federal fiscal year 2011 and extending through federal fiscal year 2016, eligible physicians participating in the Medicare and Medicaid programs are eligible for reimbursement incentives based on successfully demonstrating meaningful use of its certified Electronic Health Record (EHR) technology. Conversely, those physicians that do not successfully demonstrate meaningful use of EHR technology are subject to reductions in reimbursements beginning in fiscal year 2015.

EHR incentive payment revenue is recognized when the Corporation is reasonably assured that the EHR meaningful use criteria for the required period of time were met and that the revenue will be received. EHR incentive payment revenue totaling \$163,215 and \$255,000 for the years ended June 30, 2014 and 2013, respectively, and is included in grants and contracts in the accompanying statements of activities and changes in net assets.

The Corporation's attestation of compliance with the meaningful use criteria is subject to audit by the federal government.

# CORNELL SCOTT - HILL HEALTH CORPORATION

## NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

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### NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### *RECLASSIFICATIONS*

In addition to the restatement discussed earlier, certain June 30, 2013 amounts were reclassified to conform to the June 30, 2014 presentation.

### NOTE 3 – PATIENT FEES RECEIVABLE

Management has provided an allowance for potential credit losses, which has been determined based on collection experience. The Corporation grants credit without collateral to its patients, most of who are insured under third-party payer agreements. The mix of net receivables from Medicare and Medicaid as of June 30, 2014 and 2013 was 81% and 82%, respectively.

### NOTE 4 – NET REVENUE FROM PATIENT SERVICES

The following table summarizes net revenues from services to patients for the years ended June 30, 2014 and 2013:

	2014	2013
Gross patient fee revenue	\$ 59,090,076	\$ 56,501,895
Less contractual allowances	<u>(19,502,746)</u>	<u>(18,407,966)</u>
Patient fee revenue	39,587,330	38,093,929
Recovery of (provision for) uncollectible accounts	<u>395,124</u>	<u>(856,715)</u>
Net patient fee revenue after recovery of (provision for) uncollectible accounts	<u>\$ 39,982,454</u>	<u>\$ 37,237,214</u>

# CORNELL SCOTT - HILL HEALTH CORPORATION

## NOTES TO FINANCIAL STATEMENTS

### FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

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#### NOTE 4 – NET REVENUE FROM PATIENT SERVICES (CONTINUED)

The following summarizes all payers of revenues for the years ended June 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Medicare	10%	9%
Medicaid	78%	76%
Third Party	6%	6%
Self-pay	<u>6%</u>	<u>9%</u>
	<u>100%</u>	<u>100%</u>

Revenue from the Medicare and Medicaid programs account for a significant portion of the Corporation's net patient fee revenue. Laws and regulations governing those programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

#### *ICD-10 IMPLEMENTATION*

The Corporation is subject to the administrative simplification provisions of HIPAA which require the use of uniform electronic data transmission standards for health care claims and payment transactions submitted or received electronically.

In January 2009, the Center for Medicare and Medicaid Services (CMS) published its tenth revision of International Statistical Classification of Diseases and Related Health Problems (ICD-10) and related changes to the formats used for certain electronic transactions. ICD-10 contains significantly more diagnostic and procedural codes than the existing ICD-9 coding system, and as a result, the coding for the services provided by the Corporation will require much greater specificity when ICD-10 becomes effective on October 1, 2015.

The implementation of ICD-10 will require a significant investment in technology and training. The Corporation may experience delays in reimbursement while the Corporation and the payers from which it seeks reimbursement make the transition to ICD-10. If the Corporation fails to implement the new coding systems by the deadline, the Corporation will not be paid for services. Management is not able to reasonably estimate the overall financial statement impact of the Corporation's transition to ICD-10.

# CORNELL SCOTT - HILL HEALTH CORPORATION

## NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

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### NOTE 5 – FAIR VALUE MEASUREMENTS

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1) and the lowest priority to unobservable inputs (level 3). The three levels of the fair value hierarchy are described as follows:

- Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Corporation has the ability to access.
- Level 2: Inputs to the valuation methodology include:
  - quoted prices for similar assets or liabilities in active markets;
  - quoted prices for identical or similar assets or liabilities in inactive markets;
  - inputs other than quoted prices that are observable for the asset or liability; and
  - inputs that are derived principally from or corroborated by observable and market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

- Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2014 or 2013.

- Level 1: The fair value of common stock is based on quoted market prices of the shares held by the Corporation at year-end.
- Level 3: The investment in Community Health Network (CHN) is not actively traded and significant other observable inputs are not available. Thus, the fair value of the investment in CHN is recorded at cost, which approximates fair value.

# CORNELL SCOTT - HILL HEALTH CORPORATION

## NOTES TO FINANCIAL STATEMENTS

### FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

#### NOTE 5 – FAIR VALUE MEASUREMENTS (CONTINUED)

The following table summarizes fair value measurements, by level, at June 30, 2014 and 2013:

June 30, 2014	Fair Value Measurements Using:		
	Fair Value	(Level 1)	(Level 3)
Common stock	\$ 120,749	\$ 120,749	\$ --
Investment in CHN	<u>83,333</u>	<u>--</u>	<u>83,333</u>
Total	<u>\$ 204,082</u>	<u>\$ 120,749</u>	<u>\$ 83,333</u>
June 30, 2013	Fair Value	(Level 1)	(Level 3)
Common stock	\$ 100,507	\$ 100,507	\$ --
Investment in CHN	<u>83,333</u>	<u>--</u>	<u>83,333</u>
Total	<u>\$ 183,840</u>	<u>\$ 100,507</u>	<u>\$ 83,333</u>

#### NOTE 6 – PROPERTY AND EQUIPMENT

Property and equipment consisted of the following as of June 30, 2014 and 2013:

	2014	2013
Land	\$ 2,098,028	\$ 2,098,028
Buildings and improvements	23,539,604	22,961,698
Furniture and equipment	9,766,031	9,242,825
Construction in progress	<u>99,996</u>	<u>274,108</u>
	35,503,659	34,576,659
Less accumulated depreciation	<u>(19,153,390)</u>	<u>(17,321,324)</u>
Property and equipment, net	<u>\$ 16,350,269</u>	<u>\$ 17,255,335</u>

The depreciation charged to operations for the years ended June 30, 2014 and 2013 was \$1,936,250 and \$1,900,455, respectively.

# CORNELL SCOTT - HILL HEALTH CORPORATION

## NOTES TO FINANCIAL STATEMENTS

### FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

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#### NOTE 7 – DEFERRED FINANCING FEES

Deferred financing fees consist of the following at June 30, 2014 and 2013:

	2014	2013
Deferred financing fees	\$ 312,103	\$ 312,103
Less accumulated amortization	<u>(85,828)</u>	<u>(75,426)</u>
Deferred financing fees, net	<u>\$ 226,275</u>	<u>\$ 236,677</u>

Amortization expense was \$10,402 the years ended June 30, 2014 and 2013, for each year. Amortization of deferred financing fees of \$10,402 is expected annually through 2022.

#### NOTE 8 – RETIREMENT PLAN

The Corporation amended and restated its defined contribution retirement plan, effective January 1, 2013, to provide for both employee salary deferrals and employer matching contributions under Section 401(k) of the Internal Revenue Code. Employer contributions for the year ended June 30, 2014 and 2013 under all retirement plans totaled \$564,983 and \$526,432, respectively.

#### NOTE 9 – SHORT-TERM BORROWINGS

The Corporation's line of credit provides for borrowings up to \$1,400,000. There were no outstanding borrowings at June 30, 2014 and 2013. Interest accrues at the lender's one-month LIBOR Advantage Rate plus 3% (.347% at June 30, 2014).

#### NOTE 10 – LONG-TERM DEBT AND LEASES

During 1992, the City of New Haven issued \$4,750,000 of Hill Health Corporation Issue, Connecticut Facility Revenue Bonds - Series 1992 (the Original Bonds) to provide funds for several capital projects and to refinance certain outstanding debt of the Corporation. The proceeds of the Original Bonds were loaned to the Corporation and were evidenced by a note. The Original Bonds were secured by certain assets of the Corporation. These Original Bonds were advance refunded from the Series 2006 Bond proceeds as discussed below.

# CORNELL SCOTT - HILL HEALTH CORPORATION

## NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

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### NOTE 10 – LONG-TERM DEBT AND LEASES (CONTINUED)

During 2006, the City of New Haven issued \$8,000,000 of Hill Health Corporation Issue, Connecticut Facility Revenue Bonds – Series 2006 (the Bonds) to provide funds for several capital projects and to refinance the Series 1992 Bonds. The proceeds from the Bond issuance were loaned to the Corporation and are evidenced by a note. The Bonds bear interest at 6.50% and 6.75% and mature serially in varying amounts through the year 2036. Interest is payable semiannually through 2036. Annual sinking fund principal payments are required in amounts ranging from \$110,000 to \$510,000 through 2036. The Bonds are secured by certain assets of the Corporation.

As a condition of the bonding, the Corporation must maintain certain financial covenants including a minimum debt service coverage ratio, current ratio, days cash on hand requirement and an accounts payable aging requirement. The Corporation met these requirements for the year ended June 30, 2014. Covenant violations occurred as of June 30, 2013, however, the lender agreed to a forbearance for the June 30, 2013 year end.

During the year ended June 30, 2012, the Corporation financed its purchase of a new electronic health records system through loans in the combined amount of \$1,569,236. The loans, which mature in January 2016, are payable in monthly installments that total \$35,447 and bear interest at 3.99% per year.

During the year ended June 30, 2013, the Corporation financed an additional electronic health records system purchase, through a third loan in the amount of \$391,735. The loan, which matures in April 2017, is payable in monthly installments of \$8,878 and bears interest at 4.23% per year.

The Corporation entered into a capital lease with Jules Associates for equipment valued at \$222,433. This lease, expiring in August 2014, is payable in monthly installments of \$6,467 with a lease rate factor of 2.9% and a provision allowing for acquisition of the equipment at 1% of the original cost at the end of the lease term.

# CORNELL SCOTT - HILL HEALTH CORPORATION

## NOTES TO FINANCIAL STATEMENTS

### FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

#### NOTE 10 – LONG-TERM DEBT AND LEASES (CONTINUED)

A summary of scheduled future aggregate principal payments on long-term debt and capital lease obligations at June 30, 2014 is as follows:

	Series 2006 Bonds	Equipment Loans and Capital Lease	Total
2015	\$ 195,000	\$ 508,015	\$ 703,015
2016	210,000	515,471	725,471
2017	225,000	122,411	347,411
2018	235,000	--	235,000
2019	255,000	--	255,000
Thereafter	5,690,000	--	5,690,000
	6,810,000	1,145,897	7,955,897
Less current portion	(195,000)	(508,015)	(703,015)
	\$ 6,615,000	\$ 637,882	7,252,882

#### ***RESTRICTED CASH***

Certain proceeds from the issuance of the Bonds were restricted for capital expenditures earmarked in the bond agreement and have been subsequently expended. Accordingly, there are no cash balances restricted for capital expenditures. Additionally, a cash balance of \$653,626 and \$653,832 at June 30, 2014 and 2013 was restricted for the repayment of the debt and interest, respectively.

A summary of restricted cash balances is as follows:

	2014	2013
Restricted for interest payment	\$ 26	\$ 232
Restricted for repayment of debt	653,600	653,600
	\$ 653,626	\$ 653,832

# CORNELL SCOTT - HILL HEALTH CORPORATION

## NOTES TO FINANCIAL STATEMENTS

### FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

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#### NOTE 10 – LONG-TERM DEBT AND LEASES (CONTINUED)

##### *OPERATING LEASES*

The Corporation is committed under noncancellable operating leases for occupancy expiring through 2015. Future minimum lease payments under noncancellable operating leases for the year ending June 30, 2015 is \$156,509. Rental expense for these noncancellable operating leases for the years ended June 30, 2014 and 2013 was \$359,731 and \$356,112, respectively.

The Corporation also leases certain equipment under operating leases expiring through 2015. Future minimum lease payments for equipment the year ending June 30, 2015 is \$1,902. Equipment rental expense for the years ended June 30, 2014 and 2013 was \$191,464 and \$202,179, respectively.

In addition, as lessor, the Corporation rents certain office space under cancelable operating sublease agreements. Rental revenue amounted to \$19,667 and \$4,084 for the years ended June 30, 2014 and 2013, respectively.

#### NOTE 11 – CONTINGENCIES AND COMMITMENTS

The healthcare industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government healthcare program participation requirement, reimbursement for patient services and Medicare and Medicaid fraud and abuse. Government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers. Violations of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed.

Management believes that the Corporation is in compliance with fraud and abuse regulations, as well as other applicable government laws and regulations. While no material regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation, as well as regulatory actions unknown or unasserted at this time.

The Corporation has provided approximately \$830,000 for future insurance disallowances, which is included in accrued liabilities as of June 30, 2014 and 2013.

# CORNELL SCOTT - HILL HEALTH CORPORATION

## NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

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### NOTE 11 – CONTINGENCIES AND COMMITMENTS (CONTINUED)

The Corporation is involved in legal proceedings related to matters which are incidental to its business. In the opinion of management, based on consultation with counsel, the outcome of such proceedings will not materially affect the Corporation's financial position or results of operations, based on existing insurance coverage and contingency reserves provided by the Corporation.

The Corporation has received federal, state and other grants and payments for specific purposes that are subject to review, audit and adjustment by various agencies. Such audits could lead to requests for reimbursement to such agencies for any expenditures or claims disallowed under the terms of the agreements. Based on prior experience, management believes such disallowances, if any, will not be material to the Corporation's financial statements.

### NOTE 12 – COMMUNITY HEALTH NETWORK - A RELATED PARTY

In 1995, the Corporation contributed \$83,333 for the formation of an HMO, Community Health Network of Connecticut, Inc. (CHN) along with seven other equal share members. CHN, a nonstock, not-for-profit corporation was formed in order to enable the members to better compete in the managed care arena.

The contribution agreement includes provisions for the repayment of this contribution at the discretion of CHN. The investment in CHN is accounted for using the cost method as the Corporation does not exercise significant influence over CHN's operating and financial activities. The Corporation's Chief Executive Officer is a Board member of CHN.

### NOTE 13 – FUNCTIONAL EXPENSES

The Corporation reports its expenses in the statement of activities and changes in net assets using their natural classification. The expenses by functional classifications are as follows:

	<u>2014</u>	<u>2013</u>
Program expenses	\$ 37,636,101	\$ 36,546,742
Management and general	14,406,096	13,659,746
Fundraising	<u>14,691</u>	<u>--</u>
	<u>\$ 52,056,888</u>	<u>\$ 50,206,488</u>

# **CORNELL SCOTT - HILL HEALTH CORPORATION**

## **NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED JUNE 30, 2014 AND 2013**

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### **NOTE 14 – SUBSEQUENT EVENTS**

Management evaluates the impact of subsequent events, events that occur after the balance sheet date but before the financial statements are issued, for potential recognition in the financial statements as of the balance sheet date or for disclosure in the notes to the financial statements. Management evaluated events occurring subsequent to June 30, 2014 through November 26, 2014, the date on which the accompanying financial statements were available to be issued. During this period there were no significant subsequent events that required disclosure or recognition in the financial statements.

**CORNELL SCOTT - HILL HEALTH CORPORATION**

**REPORT ON EXAMINATION IN ACCORDANCE  
WITH OMB CIRCULAR A-133**

**FOR THE YEAR ENDED JUNE 30, 2014**

# CORNELL SCOTT - HILL HEALTH CORPORATION

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

Board of Directors  
**Cornell Scott - Hill Health Corporation**

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 Cornell Scott - Hill Health Corporation, which comprise the statement of financial position as of June 30, 2014 and the related statements of activities and changes in net assets and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 26, 2014.

***INTERNAL CONTROL OVER FINANCIAL REPORTING***

In planning and performing our audit of the financial statements, we considered Cornell Scott - Hill Health Corporation'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 Cornell Scott - Hill Health Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of Cornell Scott - Hill Health Corporation'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 Cornell Scott - Hill Health Corporation'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 is 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 Cornell Scott - Hill Health Corporation's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Cornell Scott - Hill Health Corporation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Marcum LLP*

Hartford, CT  
November 26, 2014

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE  
FOR EACH MAJOR FEDERAL PROGRAM AND  
INTERNAL CONTROL OVER COMPLIANCE;  
REPORT ON THE SCHEDULE OF EXPENDITURES OF  
FEDERAL AWARDS REQUIRED BY OMB CIRCULAR A-133**

Board of Directors  
**Cornell Scott - Hill Health Corporation**

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAMS**

We have audited Cornell Scott - Hill Health Corporation's 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 Cornell Scott - Hill Health Corporation's major federal program for the year ended June 30, 2014. Cornell Scott - Hill Health Corporation's major federal program is identified in the summary of auditors' 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.

***AUDITORS' RESPONSIBILITY***

Our responsibility is to express an opinion on compliance for Cornell Scott - Hill Health Corporation's major federal program 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 Cornell Scott - Hill Health Corporation's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of Cornell Scott - Hill Health Corporation's compliance.

## ***OPINION ON EACH MAJOR FEDERAL PROGRAM***

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

## **REPORT ON INTERNAL CONTROL OVER COMPLIANCE**

Management of Cornell Scott - Hill Health Corporation 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 Cornell Scott - Hill Health Corporation'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 our 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 Cornell Scott - Hill Health Corporation'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 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 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY OMB  
CIRCULAR A-133**

We have audited the financial statements of Cornell Scott - Hill Health Corporation as of and for the year ended June 30, 2014, and have issued our report thereon dated November 26, 2014, 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.

*Marcum LLP*

Hartford, CT

March 26, 2015, except for the paragraph

regarding the schedule of expenditures of federal awards  
as to which the date is November 26, 2014

**CORNELL SCOTT - HILL HEALTH CORPORATION**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**FOR THE YEAR ENDED JUNE 30, 2014**

Federal Grantee/Pass-Through Grantor/Program Title	CFDA Number	Pass-Through Grantor's Number	Expenditures
<b>DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>			
<b>Direct Programs:</b>			
Affordable Care Act Grants for New and Expanded Services Under the Health Centers Program	93.527	2-H80CS00312-12-00	\$ 1,045,287
Section 330: Community Health Center Cluster	93.224	2-H80CS00312-12-00	2,745,298
Health Center Cluster HIV Supplemental	93.224	2-H80CS00312-12-06	20,613
Ryan White Part C Early Intervention w/ respect to HIV Disease	93.918	H76HA00014-17	589,608
Affordable Care Act Grants for Capital Development In Health Centers	93.526	C8BCS23857-01-01	362,981
<b>Passed through the State of Connecticut Department of Mental Health and Addiction Services:</b>			
Columbus House Pathways to Independence	93.243	MHA2100AA-21782	93,286
CT SBIRT Program - Adult Psych	93.243	MHA2100AA-21782	30,000
CMHC Wellness Center	93.243	MHA2100AA-21782	141,968
<b>SAPT Block Grant:</b>			
Northside Community Outpatient Services	93.959	MHA2100AA-21782	41,024
South Central Rehabilitation Center	93.959	MHA2100AA-21782	908,357
SCRC - HIV Counselor	93.959	MHA2100AA-21782	56,700
<b>Passed through Planned Parenthood of Southern New England:</b>			
Title X Family Planning	93.217	01-H-000038-40-01	106,994
Title XX	93.667	12DSS5001VG	16,902
<b>Passed through the Community Foundation of Greater New Haven:</b>			
Healthy Start	93.926	H49MC0095-10-00	46,138
<b>Passed through Connecticut Department of Public Health:</b>			
Vaccines (Non-Cash)	93.268		284,189
Emergency Preparedness	93.889	2013-1230-BT/PHP	7,500
<b>Passed through Community Health Center Association of CT:</b>			
Ryan White AIDS Part D Project	93.153	H12HA00008EO	108,963
Comprehensive Cancer Control	93.283	2010-0193-2	13,830

*See notes to schedule of expenditures of federal awards.*

**CORNELL SCOTT - HILL HEALTH CORPORATION**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
(CONTINUED)**

**FOR THE YEAR ENDED JUNE 30, 2014**

<b>Federal Grantee/Pass-Through Grantor/Program Title</b>	<b>Federal CFDA Number</b>	<b>Pass-Through Grantor's Number</b>	<b>Expenditures</b>
<b>Passed through Yale University:</b>			
Ryan White C.A.R.E. Act Part A I	93.914	A13-0315	\$ 208,554
Tuberculosis Outreach	93.667		7,691
<b>Passed through Bridges, A Community Support System, Inc.:</b>			
Health Management Strategies for Recovery - Communicare	93.243	5H795M059509	<u>41,676</u>
<b>Total Department of Health and Human Services</b>			<u>6,877,559</u>
<b>DEPARTMENT OF AGRICULTURE</b>			
<b>Passed through Connecticut Department of Public Health:</b>			
Women, Infants and Children	10.557	2008-0175-4	261,400
Women, Infants and Children Food Benefits (Non-Cash)	10.557	HEF6026	<u>1,020,855</u>
<b>Total Department of Agriculture</b>			<u>1,282,255</u>
<b>DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</b>			
<b>Passed through the City of New Haven:</b>			
Early Stimulation Program	14.218		<u>25,000</u>
<b>Total Department of Housing and Urban Development</b>			<u>25,000</u>
<b>Total Federal Awards</b>			<u>\$ 8,184,814</u>

*See notes to schedule of expenditures of federal awards.*

# CORNELL SCOTT - HILL HEALTH CORPORATION

## NOTES TO EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2014

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### NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the schedule) includes the Federal grant activity of Cornell Scott - Hill Health Corporation, under programs of the Federal government for the year ended June 30, 2014. The information in the schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of Cornell Scott - Hill Health Corporation, it is not intended to and does not present the financial position, changes in net assets or cash flows of Cornell Scott - Hill Health Corporation.

### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the schedule are reported on the accrual basis of accounting. For cost-reimbursement awards, 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. For performance-based awards, expenditures reported represent amounts earned. Pass-through entity identifying numbers are presented where available.

### NOTE 3 - PROGRAM CLUSTER

#### DEPARTMENT OF HEALTH AND HUMAN SERVICES

Name of Federal Program or Cluster	CFDA #	Identifying Number	Expenditures
Section 330: Community Health Centers Cluster	93.224	2-H80CS00312-12-00	\$ 1,045,287
Affordable Care Act (ACA) Grants for New and Expanded Services under the Health Centers Program	93.527	2-H80CS00312-12-00	2,745,298
Health Center Cluster HIV Supplemental	93.224	2-H80CS00312-12-06	<u>20,613</u>
Total Health Center Cluster			<u>\$ 3,811,198</u>

**CORNELL SCOTT - HILL HEALTH CORPORATION**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**FOR THE YEAR ENDED JUNE 30, 2014**

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**SECTION I - SUMMARY OF AUDITORS' RESULTS**

*Financial Statements*

Type of auditors' report issued: *Unmodified Opinion*

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 auditors' report issued on compliance for major programs: *Unmodified Opinion*

Any audit findings disclosed that are required to be reported in accordance with Section 501(a) of OMB Circular A-133?  Yes  No

Identification of major programs:

Name of Federal Program or Cluster	CFDA #
SAPT Block Grant	93.959
Section 330: Community Health Centers Cluster	93.224
Affordable Care Act (ACA) Grants for New and Expanded Services under the Health Centers Program	93.527
Affordable Care Act Grants for Capital Development in Health Centers	93.526
Ryan White C.A.R.E. Act Part A I	93.914
Ryan White Aids Part D Project	93.153
Ryan White Part C Early Intervention w/ respect to HIV Disease	93.918

Dollar threshold used to distinguish between Type A and Type B Program \$ 300,000

Auditee qualified as low-risk auditee?  Yes  No

**CORNELL SCOTT - HILL HEALTH CORPORATION**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)**  
**FOR THE YEAR ENDED JUNE 30, 2014**

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**SECTION II - FINANCIAL STATEMENTS FINDINGS**

No matters were reported.

**SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

No matters were reported.

**SECTION IV - PRIOR YEAR FEDERAL AWARDS AND FINDING**

Finding #2013-001 Time and Effort Reporting and Finding #2013-002 Specific Reporting Requirements have been addressed.