

Fair Haven Community Health Clinic, Inc.
Financial Statements
for the Year Ended
June 30, 2014
and Reports of Independent Auditors

FAIR HAVEN COMMUNITY HEALTH CLINIC, INC.

**INDEX TO FINANCIAL STATEMENTS
JUNE 30, 2014**

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT	1-2
<u>FINANCIAL STATEMENTS:</u>	
STATEMENT OF FINANCIAL POSITION - JUNE 30, 2014	3
STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2014	4
STATEMENT OF FUNCTIONAL EXPENSES FOR THE YEAR ENDED JUNE 30, 2014	5
STATEMENT OF CASH FLOWS FOR THE YEAR ENDED JUNE 30, 2014	6
NOTES TO FINANCIAL STATEMENTS	7-19
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	20-21
INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR NO. A-133	22-24
<u>SUPPLEMENTAL INFORMATION:</u>	
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	25-26
FEDERAL SCHEDULE OF FINDINGS AND QUESTIONED COSTS	27-31
INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR STATE PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE AND REPORT ON THE SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE REQUIRED BY THE STATE SINGLE AUDIT ACT	32-34
<u>SUPPLEMENTAL INFORMATION:</u>	
SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE	35-36
STATE SCHEDULE OF FINDINGS AND QUESTIONED COSTS	37-42

VISCONTI AND ASSOCIATES, P.C.
Certified Public Accountants



John J. Visconti, MS, CPA

REPORT I

Independent Auditor's Report

To the Board of Directors
Fair Haven Community Health Clinic, Inc.
374 Grand Avenue
New Haven, Connecticut 06513

ID#: 06-0883545

Report on the Financial Statements

We have audited the accompanying financial statements of Fair Haven Community Health Clinic, Inc. ("the Clinic") (a nonprofit organization), which comprise the statement of financial position as of June 30, 2014 and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements. The prior year summarized comparative information has been derived from the Clinic's 2013 financial statements and in our report dated March 17, 2014, we expressed an unqualified opinion on those 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 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 Fair Haven Community Health Clinic, Inc. as of June 30, 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 State of America.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplemental information is presented for purposes of additional analysis and is not a required part of the financial statements. The schedule of expenditures of federal awards is prepared for the purpose of additional analysis as required by the U. S. Office of Management and Budget Circular No. A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, 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 January 19, 2015 on our consideration of Fair Haven Community Health Clinic, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Fair Haven Community Health Clinic, Inc.'s internal control over financial reporting and compliance.

Visconti & Associates, P.C.

January 19, 2015

FAIR HAVEN COMMUNITY HEALTH CLINIC, INC.

**STATEMENT OF FINANCIAL POSITION, JUNE 30, 2014
WITH COMPARATIVE TOTALS FOR 2013**

<u>ASSETS</u>	<u>NOTES</u>	<u>2014</u>	<u>(Note 1) (Memorandum Only) 2013</u>
CURRENT ASSETS:			
Cash and cash equivalents		\$ 761,648	\$ 265,854
Receivables:			
Grants and contracts	2	733,023	682,082
Patient fees, net of allowance for doubtful accounts of \$987,016	3	872,665	869,429
Other receivables			13,280
Prepaid expenses		<u>85,303</u>	<u>117,346</u>
Total current assets		<u>2,452,639</u>	<u>1,947,991</u>
Property and equipment:	5	7,871,186	7,777,449
Less: accumulated depreciation and amortization		<u>3,091,903</u>	<u>2,754,333</u>
Property and equipment - net		<u>4,779,283</u>	<u>5,023,116</u>
Investment in CHN	4,6	<u>83,333</u>	<u>83,333</u>
TOTAL		<u><u>\$ 7,315,255</u></u>	<u><u>\$ 7,054,440</u></u>
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES:			
Accounts payable		\$ 952,845	\$ 1,155,098
Accrued liabilities		813,761	570,613
Other liabilities	12	14,201	7,867
Short-term borrowings	8	125,000	325,000
Long term debt - current portion	8	156,081	215,865
Deferred revenue	7	<u>504,291</u>	<u>325,645</u>
Total current liabilities		<u>2,566,179</u>	<u>2,600,088</u>
LONG-TERM LIABILITIES:			
Long term debt, net of current portion	8	<u>43,771</u>	<u>1,395,356</u>
Total long term liabilities		<u>43,771</u>	<u>1,395,356</u>
Total liabilities		<u>2,609,950</u>	<u>3,995,444</u>
NET ASSETS - UNRESTRICTED		<u>4,705,305</u>	<u>3,058,996</u>
TOTAL		<u><u>\$ 7,315,255</u></u>	<u><u>\$ 7,054,440</u></u>

See notes to financial statements.

FAIR HAVEN COMMUNITY HEALTH CLINIC, INC.

**STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2014
WITH COMPARATIVE TOTALS FOR 2013**

	<u>NOTES</u>	<u>2014</u>	<u>(Note 1) (Memorandum Only) 2013</u>
SUPPORT AND REVENUE:			
SUPPORT:			
Grants and contracts		\$ 5,890,492	\$ 6,503,608
Donated services, equipment and space		838,830	1,020,332
Women, infants and children food benefits	1, 10	1,500,132	1,061,234
Contributions		81,732	106,664
Interest income		565	1,244
Other		415,938	203,775
Total		<u>8,727,689</u>	<u>8,896,857</u>
REVENUE - patient services, net		<u>6,475,499</u>	<u>5,954,712</u>
Total		<u>15,203,188</u>	<u>14,851,569</u>
EXPENSES:			
Program services		11,978,193	12,019,780
Supporting services - management and general		3,127,780	3,376,862
Fundraising expenses		43,120	17,589
Total		<u>15,149,093</u>	<u>15,414,231</u>
CHANGE IN NET ASSETS FROM OPERATIONS		54,095	(562,662)
CANCELLATION OF DEBT	8,14	<u>1,592,211</u>	<u> </u>
CHANGE IN NET ASSETS		1,646,306	(562,662)
NET ASSETS - UNRESTRICTED:			
Beginning of year		<u>3,058,996</u>	<u>3,621,658</u>
End of year		<u>\$ 4,705,302</u>	<u>\$ 3,058,996</u>

See notes to financial statements.

FAIR HAVEN COMMUNITY HEALTH CLINIC, INC.

**STATEMENT OF FUNCTIONAL EXPENSES FOR THE YEAR ENDED JUNE 30, 2014
WITH COMPARATIVE TOTALS FOR 2013**

	SUPPORTING SERVICES			2014 TOTAL	(NOTE 1) (Memorandum Only)
	PROGRAM SERVICES	MANAGEMENT AND GENERAL	FUNDRAISING		2013 TOTAL
Salaries	\$ 6,849,992	\$ 1,907,481	\$ 33,520	\$ 8,790,993	\$ 8,652,922
Consultants	32,025	356,309		388,334	660,790
Donated salaries	213,073			213,073	153,073
Payroll taxes	655,147	182,435	3,206	840,788	781,947
Employee benefits	671,009	186,852	3,284	861,145	988,352
Donated lab fees	40,000			40,000	40,000
Laboratory fees	10,041			10,041	15,569
Educational materials	3,408			3,408	9,835
Medical supplies	233,469			233,469	273,220
Donated medical supplies	556,157			556,157	797,660
Insurance	53,283	14,838		68,121	32,531
License and credentialing	31,129			31,129	29,492
Telephone	122,894	34,221		157,115	112,403
Office supplies and expenses	165,504	46,087		211,591	242,000
Conferences and training	4,207	1,171		5,378	9,745
Travel	19,526	5,437		24,963	12,103
Postage	17,109	4,765	84	21,958	21,592
Printing expenses	776	216		992	3,278
Legal and accounting		76,148		76,148	63,502
Marketing			3,026	3,026	230
Equipment maintenance		81,714		81,714	7,591
Membership fees		18,187		18,187	24,120
Equipment lease		15,989		15,989	35,233
Miscellaneous		14,365		14,365	6,415
R Wh spec.care/emergency funds	23,586			23,586	37,449
Occupancy costs	348,628	97,080		445,708	414,179
Donated rent	23,153	6,447		29,600	29,599
Interest expense	16,200	4,511		20,711	52,520
Prescription benefit program expense	104,998			104,998	74,551
WIC food benefits	1,500,132			1,500,132	1,061,234
Provision for bad debts	18,704			18,704	466,841
Total	11,714,150	3,054,253	43,120	14,811,523	15,109,976
Depreciation	264,043	73,527		337,570	304,255
Total	\$ 11,978,193	\$ 3,127,780	\$ 43,120	\$ 15,149,093	\$ 15,414,231

See notes to financial statements.

FAIR HAVEN COMMUNITY HEALTH CLINIC, INC.

**STATEMENT OF CASH FLOWS FOR THE YEAR ENDED JUNE 30, 2014
WITH COMPARATIVE TOTALS FOR 2013**

	2014	(NOTE 1) (Memorandum Only) 2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 1,646,306	\$ (562,662)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Provision for bad debts	18,704	466,841
Depreciation	337,570	304,255
Debt cancellation	(1,592,211)	
Change in operating assets and liabilities:		
Patient receivables	(21,940)	(301,902)
Grant/contracts and other receivables	(37,661)	(58,263)
Prepaid expenses	32,043	(42,719)
Accounts payable	(202,253)	160,910
Accrued liabilities	243,148	183,417
Other liabilities	6,334	2,314
Deferred revenue	178,646	(774,771)
Net cash provided by (used in) operating activities	<u>608,686</u>	<u>(622,580)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of equipment and improvements	<u>(93,734)</u>	<u>(271,834)</u>
Net cash used in investing activities	<u>(93,734)</u>	<u>(271,834)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from short-term borrowing	50,000	250,000
Principle payments on long-term debt	<u>(69,158)</u>	<u>(75,813)</u>
Net cash (used in) provided by financing activities	<u>(19,158)</u>	<u>174,187</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	495,794	(720,227)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	265,854	986,081
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 761,648</u>	<u>\$ 265,854</u>
SUPPLEMENTAL CASH FLOW INFORMATION:		
Payment of interest	<u>\$ 20,711</u>	<u>\$ 16,630</u>

See notes to financial statements.

FAIR HAVEN COMMUNITY HEALTH CLINIC, INC.

NOTES TO FINANCIAL STATEMENTS

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Description of Operations - Fair Haven Community Health Clinic, Inc. ("the Clinic") (a non-profit organization), was organized in 1971 offering services on a walk-in basis to the Greater New Haven, Connecticut area. Over the years, the Clinic has opened five satellite clinics and expanded its staff to provide more comprehensive care such as community outreach, prenatal, baby care and health education.

Basis of Presentation - The Financial Accounting Standards Board (FASB) has created the FASB Accounting Standards Codification (ASC) System which is the official source of authoritative, nongovernmental accounting principles generally accepted in the United States of America. In accordance with ASC Topic 958-205, *Not for Profit Entities, Presentation of Financial Statements*, the Clinic reports information regarding its financial position and activities according to three classes of net assets:

Unrestricted – Unrestricted net assets represent available resources other than donor-restricted contributions. Included in unrestricted net assets are grants and contracts that may be earmarked for specific purposes.

Temporarily Restricted – Temporarily restricted net assets represent contributions that are restricted either as to purpose or as to time of expenditure. The Clinic has no temporarily restricted net assets.

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 Clinic has no permanently restricted net assets.

Prior Year Information - The financial information presented for 2013 is included to provide a basis for comparison with 2014 and presents summarized totals only. The 2013 amounts are not intended to include all the information necessary for a fair presentation in accordance with accounting principles generally accepted in the United States of America. Accordingly, such amounts should be read in conjunction with the Clinic's financial statements for the year ended June 30, 2013, from which the comparative totals were derived. Certain 2013 amounts have been reclassified to conform to the 2014 presentation.

Property and Equipment - Land, property and equipment are stated at cost. Depreciation and amortization are provided using the straight-line method over the estimated useful lives of the assets which range from 5 to 40 years. Expenditures for maintenance, repairs and improvements which do not significantly extend the useful lives of the assets are charged to earnings. The Clinic's capitalization threshold is \$1,500.

The Clinic performs a test for impairment whenever events or changes in circumstances indicate that the carrying amount of an individual asset or asset group may not be recoverable. Should projected undiscounted future cash flows be less than the carrying amount of the asset or asset group, an impairment charge reducing the carrying amount to fair value is required. Fair value is determined based on the most appropriate valuation technique, including discounted cash flows.

Revenue and Expense Recognition - Revenue from grants and contracts is recognized ratably over the period of the grant or, for prepayment grants, upon actual expenses incurred. 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.

In addition, the Clinic 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 revenues and expenses on the statement of activities and expenditures on the schedule of expenditures of federal awards.

The Clinic also administers vaccines, which are provided by the State of Connecticut Department of Public Health. The value of the vaccines provided to the patient population is reported as both revenues and expenses on the statement of activities. Since the Clinic is considered a "vaccinating provider" and not a sub recipient, such amounts are excluded from the federal and state schedules of expenditures.

Patient Fees - Patient services revenue is reported at the estimated net realizable amounts from patients, third-party payers, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payers. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. Self-pay revenue is recorded at published charges less charitable allowances to arrive at net self-pay revenue. All other patient services revenue is recorded at published charges less contractual allowances to arrive at patient services revenue net.

Premium Revenue - The Clinic has an agreement with Community Health Network ("CHN") (an HMO) to provide medical services to subscribing participants. CHN makes fee-for-service payments to the Clinic for certain covered services based upon discounted fee schedules.

Contributions - Unconditional contributions are recognized when pledged or received, as applicable, and are considered to be available for unrestricted use unless specifically restricted by the donor. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Contributions received whose restrictions are met in the same period are presented as unrestricted net assets. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

Donated Services, Supplies, Equipment and Space - Contributions of donated services, supplies, equipment and space are recorded at their fair values in accordance with ASC Topic 958, *Not for Profit Entities*.

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.

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 Clinic 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 related claim liabilities. As of June 30, 2014, the Clinic has not recorded an insurance recoverable or insurance payable.

Cash and Cash Equivalents - For the purpose of reporting cash flows, the Clinic includes any investments with an original maturity of three months or less in cash equivalents.

Allocated Expenses - Functional expenses have been allocated between Clinic programs, fundraising and management and general expenses. The allocations are based on an analysis of personnel costs and space utilized for the related activities.

Concentrations of Credit Risk -

Cash - The Clinic maintains its cash balances in three financial institutions subject to the FDIC deposit insurance limit of \$250,000. The Clinic's deposits

may, at times, exceed federal or other depository insurance limits. The Clinic has not experienced any losses relating to temporarily uninsured cash balances and management believes that the Clinic's deposits are not subject to significant credit risk. At June 30, 2014, the Clinic's uninsured cash balances were approximately \$275,000.

Grants and Contracts Receivable - Grants and contracts receivable are supported by contracts with federal and state governments and others, and, based on historical experience; management believes these receivables represent negligible credit risk. Accordingly, management has not established an allowance for potential credit loss.

Patient Fee Receivables - Patient fee revenues and receivables are recorded net of contractual and bad debt allowances. Based on historical experience and collections subsequent to year end, management believes the receivables represent negligible credit risk.

Income Taxes - The Clinic is exempt from federal income taxes under section 501(c)(3) of the Internal Revenue Code. The Internal Revenue Service has determined the Clinic is other than a private foundation.

The Clinic adopted ASC Topic 740 *Income Taxes*. ASC Topic 740 provides detailed guidance for the financial statement recognition, measurement and disclosure of uncertain tax positions recognized in an enterprise's financial statements. Income tax positions must meet a more-likely-than-not recognition threshold at the effective date to be recognized upon adoption of ASC Topic 740 and in subsequent periods. Management is not aware of any uncertain tax positions taken by the Clinic as of that date. Tax years ended June 30, 2011 through June 30, 2014 remain subject to examination by major tax jurisdictions.

Use of Estimates in Financial Statements - 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 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 receivables. Actual results could differ from those estimates.

Subsequent Events - The Clinic adopted ASC Topic 855, *Subsequent Events*. ASC Topic 855 requires disclosure of the date through which subsequent events have been evaluated and whether that date is the date that the financial statements were issued or available to be issued. Management has evaluated subsequent events for potential recognition and disclosure through January 19, 2015, the date the financial statements were available to be issued. Management is not aware of any events,

subsequent to the statement of financial position date, which would require additional adjustment to, or disclosure in, the accompanying financial statements.

2. RECEIVABLES FROM GRANTS AND OTHER CONTRACTS

At June 30, 2014, receivables from grants and contracts were as follows:

City of New Haven – School Based Clinics	\$ 66,684
City of New Haven – CDBG Community Development Act Grant	67,000
CHCACT – Cancer Control Program	4,471
CHCACT – Medicaid Outreach	19,822
CHCACT – Ryan White Part D	32,501
CHCACT – SNAP	21,418
CHCACT – CT Screening, Brief Intervention & Referral to Treatment	17,890
Consultation Center, Inc. – Riverside Academy	20,000
Cornell Scott – Hill Health Corp. – Nurturing Families Network	107,081
HHS – Ryan White Part C	22,754
HHS – SBHC Capital	902
New Alliance – Dental Grant	1,033
Komen Foundation	25,000
Yale – Ryan White Part A	20,469
Yale – Free Clinic	18,904
Yale – GRADE Study	100,437
Title X - Planned Parenthood	44,454
Title XX - Planned Parenthood	9,885
CT DOC – Smoking Cessation & Prevention	6,000
Women, Infants and Children – Peer Counseling	15,505
Communicare – Latino Behavioral Health	58,849
CT DPH - State HIV ELC Capacities	27,857
CT DPH – Community Health Centers	12,914
CT DPH - State Family Planning	<u>11,193</u>
TOTAL	<u>\$733,023</u>

3. PATIENT FEE RECEIVABLES

At June 30, 2014, patient fee receivables consisted of the following:

Connecticut Department of Social Services Title XIX - Medicaid	\$ 524,373
Private Insurance	384,097
Private Patients	650,601
Medicare	<u>300,610</u>
Total	1,859,681
Less: Allowance for Doubtful Accounts	<u>(987,016)</u>
Patient Fee Receivables - Net	<u>\$ 872,665</u>

4. FAIR VALUE MEASUREMENTS

The Clinic's investments are reported at fair value in the accompanying statement of financial position.

Fair Value Measurements Using:

<u>June 30, 2014</u>	<u>Fair Value</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Investment in CHN	<u>\$ 83,333</u>	<u>\$ 83,333</u>
Total	<u>\$ 83,333</u>	<u>\$ 83,333</u>

ASC Topic 820, *Fair Value Measurements*, establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority, and Level 3 inputs have the lowest priority. The Clinic uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, the Clinic measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. No Level 2 inputs were available to the Clinic, and Level 3 inputs were only used when Level 1 or Level 2 were not available.

Level 3 Fair Value Measurements

The investment in 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. The following table provides further details of the Level 3 fair value measurements.

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)
<u>June 30, 2014</u>	<u>Investment in CHN</u>
Beginning balance	\$83,333
Purchases, sales, issuances, and settlements (net)	<u>-</u>
Ending balance	<u><u>\$83,333</u></u>

5. PROPERTY AND EQUIPMENT

At June 30, 2014 property and equipment was as follows:

Land	\$ 212,000
Buildings	5,819,347
Office and medical equipment	1,002,159
Equipment under capital lease	70,916
Leasehold improvements	706,804
Improvements - Bella Vista	56,285
Improvements - Wilbur Cross High School	1,400
Construction in progress	<u>2,275</u>
	7,871,186
Less: Accumulated depreciation and amortization	<u>(3,091,903)</u>
Property and Equipment -- Net	<u><u>\$ 4,779,283</u></u>

6. INVESTMENT IN CHN

The Clinic contributed \$83,333 for the formation of a Health Maintenance Organization, Community Health Network of Connecticut, Inc. ("CHN") along with eight other members. CHN, a non-stock, 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 Clinic does not exercise significant influence over CHN's operating and financial activities

The Clinic's Chief Executive Officer is a Board member of CHN. Revenues generated from CHN were approximately \$2,650

7. DEFERRED REVENUES

At June 30, 2014, deferred revenues consisted of the following:

CHN – Environmental Support	\$ 100,000
CHN – Rewards to Quit	3,743
Yale/HSR - Women, Infants and Children	7,019
Yale/Donaghue – Healthy Lifestyles	42,778
CT DPH – SBHC FHK8 Expansion	7,606
CT Health Foundation – Dental Grant	17,500
HHS – ACA – Capital Development Grant FIP-V	<u>325,645</u>
 TOTAL	 <u>\$ 504,291</u>

8. SHORT-TERM BORROWINGS AND LONG-TERM DEBT

Short-term borrowings consist of a \$75,000 line of credit with the Greater New Haven Community Loan Fund bearing interest at 6.5% per annum, which expired on February 3, 2014. Subsequent to year-end, in December 2014, this debt was repaid in full. The note was secured by the Clinic's grants receivable.

In addition, in March of 2014, the Clinic was advanced \$50,000 from the State of Connecticut Department of Social Services against claims that were due to the Clinic for hospital rounding services. The State subsequently withheld the funds from the Clinic's fiscal 2015 monthly Medicaid remittances. Accordingly, subsequent to year-end, the advances were repaid in full.

As discussed in Note 14, three outstanding loans with First Niagara Bank, formerly New Alliance Bank, were settled subsequent to year-end. Accordingly, the agreed-upon settlement amount of \$155,069 is presented as short-term on the statement of financial position as of June 30, 2014.

As a condition of borrowing, the Clinic must maintain financial covenants. Certain covenants were violated during fiscal 2014. The lender has waived the violations in connection with settling the outstanding debt subsequent to year-end. See Note 14.

In addition, during 2008 the Clinic entered into a \$50,000 note with an individual, payable at 8% per annum, based on a 30 year amortization, with a balloon payment of approximately \$42,000 in 2017.

The aggregate future principal payments of long-term debt are as follows:

2015	\$156,081
2016	1,060
2017	<u>42,711</u>
Total	199,852
Less: current portion	<u>(156,081)</u>
Long-Term portion	<u>\$ 43,771</u>

Interest expense on short-term borrowings and long-term debt during fiscal year 2014 was approximately \$8,980.

9. LEASES

Operating Leases – A satellite clinic leases its facilities under an operating lease agreement for a monthly rental charge of \$217, which represents approximately 50% of the fair market rental value. The remaining amount has been recorded as donated space. The lease is renewed on an annual basis.

In December 2008, a parking lot adjacent to the Clinic was leased for employee use at an initial rate of \$550 per month. The lease calls for annual increases to the monthly rent each December through the end of the lease, which expired December 31, 2012. The lease remained on a month-to-month basis during fiscal 2014 at \$800 per month until it was terminated in May, 2014.

The Clinic entered into a one-year lease, commencing February 1, 2014, for garage space in which to house its dental van, at an annual cost of \$17,400.

The Clinic leased office equipment from a leasing company for a five-year term commencing in May of 2012 at a monthly cost of approximately \$1,298.

The Clinic entered into a 66-month lease for a new billing system in October 2013. The lease calls for monthly payments of approximately \$544, beginning in the seventh month. No payments were required for the first six months of the lease term.

Rent expense under all operating leases for the year ended June 30, 2014 was approximately \$34,373.

Minimum future lease payments are as follows:

For the Year Ending June 30

2015	\$ 32,604
2016	22,105
2017	20,806
2018	6,527
2019	<u>6,527</u>

Total minimum lease payments **\$ 88,569**

10. DONATED SERVICES, EQUIPMENT AND SPACE

Donated services, supplies, equipment and space consisted of the following:

<u>Donor</u>	<u>Type</u>	<u>Amount</u>
Various volunteers	Clinic salaries	\$ 213,073
Donated medical services	Lab costs	40,000
Donated medical supplies	Vaccines	556,157
Donated food benefits (WIC)	Food benefits	1,500,132
Village Park II Realty Co.	Rent	3,200
Riverside Academy	Rent	6,600
Wilbur Cross High School	Rent	6,600
Fair Haven Middle School	Rent	6,600
Clinton Avenue School	Rent	<u>6,600</u>
TOTAL		<u>\$2,338,962</u>

11. FREE CLINIC AGREEMENT

During November 2005, the Clinic entered into an agreement with Yale University ("Yale") to provide a half day clinic whereby certain healthcare services are provided free of charge to uninsured patients within the Fair Haven catchment area. The program is staffed with Clinic personnel and Yale students. The Clinic is ultimately responsible for the operations of the program and the care rendered.

Yale has agreed to reimburse the Clinic for personnel and lab costs which approximated \$91,400. The agreement is renewed annually and was in effect at June 30, 2014.

12. PENSION PLAN

The Clinic provides all eligible employees with a contributory 403(b) tax sheltered annuity plan. Effective July 1, 2012, the Plan was amended to eliminate a matching provision in favor of a discretionary employer contribution. The employer contribution for fiscal 2013 was unable to be funded and, accordingly, the liability was reversed in 2014. For the year ended June 30, 2014, the discretionary employer pension contribution approximated \$129,000.

During the year, certain employee 403(b) plan contributions withheld were not remitted to the Plan on a timely basis. However, the Clinic deposited those amounts prior to June 30, 2014.

13. CONTINGENCIES

The Clinic has received grants and contracts for specific purposes that are subject to review, audit and adjustment by the grantor 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 financial statements.

The Clinic is also subject to specific rules and regulations relating to Medicare and Medicaid programs, which can be subject to government review and interpretation as well as regulatory actions unknown and unasserted at this time. The Federal government activity has increased with respect to investigations concerning possible violations of regulations by health care providers, which could result in the imposition of significant fines and penalties, as well as significant repayments of previously billed and collected revenues from patient services. Management believes that the Clinic is in substantial compliance with current laws and regulations and is not aware of any existing or pending investigations regarding noncompliance.

The Clinic has medical malpractice coverage under the Federal Tort Claims Act ("FTCA"). The FTCA provides malpractice coverage to eligible PHS-supported programs that covers the Clinic 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 the FTCA coverage. The Clinic does not maintain gap insurance for claims that are not covered by the FTCA.

The land and building located at 374 Grand Avenue, New Haven, was quit claimed to the Clinic by the State of Connecticut in 1993 subject to an automatic right of reversion which states that should the grantee and its successors and/or assigns use the subject premises for any purpose other than for health care services, then this

deed shall automatically become null and void and title in the simple absolute to the subject premises, together with all buildings and improvements situated on said premises, shall automatically revert to the grantor, the State of Connecticut.

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 incentive 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 revenue is recognized when the Clinic 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 \$127,500 for the year ended June 30, 2014 is included in grants and contracts in the accompanying statement of activities.

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

The Clinic 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 the 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 Clinic 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 Clinic may experience delays in reimbursement while the Clinic and the payers from which it seeks reimbursement make the transition to ICD-10. If the Clinic fails to implement the new coding system by the deadline, the Clinic will not be paid for services. The financial statement impact of ICD-10 implementation, if any, is not presently determinable.

14. CANCELLATION OF DEBT

Certain fiscal 2008 and calendar year 2008 Federal payroll tax deposits were not made on a timely basis. During fiscal 2010, management established a payment plan with the Internal Revenue Service ("IRS") to repay this debt at a rate of \$5,000 per month, including interest. The obligation was secured by certain real property. The balance due on this debt at June 30, 2014, totaled approximately \$921,000 of principal and approximately \$203,000 of accrued interest.

During fiscal 2013, the Clinic submitted an offer in compromise to settle the obligation at a significantly lesser amount. During fiscal 2014, the IRS accepted the offer, which amounted to payments that had been made through fiscal 2013 plus an additional \$75,000 paid during 2014. In exchange, the IRS forgave the remaining outstanding taxes, along with all penalties and accrued interest. The Clinic recognized cancellation of debt income in connection with this transaction of approximately \$1,000,000.

As discussed in Note 8, subsequent to year-end, management received a notice of acceptance for the offer that it made during fiscal 2014 to First Niagara Bank to settle the Clinic's three outstanding loans for a total payment of \$155,069. Accordingly, the Clinic recognized cancellation of debt income of approximately \$590,000.

VISCONTI AND ASSOCIATES, P.C.
Certified Public Accountants

John J. Visconti, MS, CPA

REPORT II

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
Fair Haven Community Health Clinic, Inc.
374 Grand Avenue
New Haven, CT 06513

ID#: 06-0883545

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 Fair Haven Community Health Clinic, Inc., which comprise the statement of financial position as of June 30, 2014, and the related statements of activities, functional expenses and cash flows for the year ended, and the notes to the financial statements, and have issued our report thereon dated January 19, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Fair Haven Community Health Clinic, Inc.'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 Fair Haven Community Health Clinic, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Fair Haven Community Health Clinic, Inc.'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.

We noted other matters, not considered to be material weaknesses, involving internal controls and operating matters which we have reported to the management of Fair Haven Community Health Clinic, Inc. in a separate letter dated January 19, 2015.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Fair Haven Community Health Clinic, Inc.'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.

Visconti & Associates, P.C.

January 19, 2015



John J. Visconti, MS, CPA

REPORT III

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

To the Board of Directors
Fair Haven Community Health Clinic, Inc.
374 Grand Avenue
New Haven, CT 06513

ID#: 06-0883545

Report on Compliance for Each Major Federal Program

We have audited Fair Haven Community Health Clinic, Inc.'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 each of Fair Haven Community Health Clinic, Inc.'s major federal programs for the year ended June 30, 2014. Fair Haven Community Health Clinic, Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs (Exhibit I).

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 Fair Haven Community Health Clinic, Inc.'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 Fair Haven Community Health Clinic, Inc.'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 Fair Haven Community Health Clinic, Inc.'s compliance.

Opinion on Each Major Federal Program

In our opinion, Fair Haven Community Health Clinic, Inc. 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 June 30, 2014.

Other Matters

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

Fair Haven Community Health Clinic, Inc.'s response to the noncompliance findings identified in our audit is described in the accompanying federal schedule of findings and questioned costs. Fair Haven Community Health Clinic, Inc.'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 Fair Haven Community Health Clinic, Inc. 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 Fair Haven Community Health Clinic, Inc.'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 Fair Haven Community Health Clinic, Inc.'s internal control over compliance.

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

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

We noted other matters, not considered to be material weaknesses, involving internal controls and operating matters, which we have reported to the management of Fair Haven Community Health Clinic, Inc. in a separate letter dated January 19, 2015.

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 purpose.

Visconti & Associates, P.C.

January 19, 2015

FAIR HAVEN COMMUNITY HEALTH CLINIC, INC.**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2014**

Federal Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Expenditures
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:			
Direct Programs:			
Community Health Center - 330 Grant	93.224		\$1,889,452
Ryan White Outpatient Early Intervention - Part C	93.918		319,838
Affordable Care Act (ACA) Grants for School-Based Health Center Capital Expenditures	93.501		89,143
Affordable Care Act – Nurse Managed Health Clinics	93.515		<u>118,339</u>
Subtotal Direct Programs			<u>2,416,772</u>
DEPARTMENT OF HEALTH AND HUMAN SERVICES:			
Pass through Programs from:			
Planned Parenthood of Southern New England - Title X – Family Planning	93.217	01-H-000038-31-0	181,815
Planned Parenthood of Southern New England - State of Connecticut Department of Public Health - Family Planning	93.994	2010-0002-2	44,768
Planned Parenthood of Southern New England - Social Services Block Grant Title XX – Family Planning	93.667	093PPL-SBG-21/05DSS5001VG	50,942
Yale University - Ryan White C.A.R.E. ACT Part A – Primary Care	93.914	A10-0443	55,673
Community Foundation of Greater New Haven - Healthy Start	93.926		37,301
Community Health Center Association of CT – Ryan White C.A.R.E. ACT Part D – Children, Youth & Family AIDS Network	93.153		88,657
Community Health Center Association of CT – State of Connecticut Department of Mental Health and Addiction Services – CT Screening, Brief Intervention & Referral to Treatment Program	93.243		46,390
Community Health Center Association of CT – Colorectal Cancer Screening	93.283		13,830
Yale University School of Medicine – GRADE Study	93.847	M13Q11639	155,729
State of Connecticut Department of Public Health – CT HIV – Affordable Care Act - Building Epidemiology & Laboratory Capacity for Infectious Diseases	93.521		42,857
State of Connecticut Department of Public Health passed through City of New Haven - School Based Health Clinics	93.994	DPH 48500-17019	19,194

Subtotal Pass through Programs			<u>737,156</u>
Total U.S. Department of Health and Human Services			<u>3,153,928</u>
U.S. DEPARTMENT OF AGRICULTURE:			
Pass through program from CT Department of Public Health:			
Women, Infants and Children passed through the Yale New Haven Hospital /Hospital of St. Raphael	10.557	245 DPH 0054AA	266,736
Women, Infants and Children Food Benefits	10.557		1,500,132
Pass through program from CT Department of Social Services:			
Supplemental Nutrition Assistance Program (SNAP) passed through the Community Health Center Association of CT	10.561		<u>98,333</u>
Total U.S. Department of Agriculture.			<u>1,865,201</u>
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:			
Pass through program from City of New Haven - Community Development Act - Family and Adolescent Project			
	14.218		<u>67,000</u>
Total U.S. Department of Housing and Urban Development			<u>67,000</u>
TOTAL			<u>\$5,086,129</u>

(A) Basis of Accounting - The accompanying schedule of expenditures of federal awards includes the federal grant activity of Fair Haven Community Health Clinic, Inc. The information in this schedule is prepared in accordance with the requirements of OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations" and does not differ materially from generally accepted accounting principles. Expenses are recognized when they become a demand on current available financial resources and are liquidated within 60 days.

(B) The Clinic, as a vaccinating provider, received vaccines valued at \$556,157 from the Connecticut Department of Public Health. Per OMB Circular No. A-133, the Clinic is not considered a grantee or sub recipient.

See Auditor's Report on Supplemental Information.

FAIR HAVEN COMMUNITY HEALTH CLINIC, INC.**FEDERAL SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2014****I. SUMMARY OF AUDIT 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 OMB A-133

 yes no

Identification of major programs:

<u>Name of Federal Program or Cluster</u>	<u>CFDA#</u>
Community Health Center -- 330 Grant	93.224
Title X -- Family Planning	93.217
Diabetes, Digestive and Kidney Diseases Extramural Research - GRADE Study	93.847
Ryan White Outpatient Early Intervention -- Part C	93.918
Supplemental Nutritional Assistance Program (SNAP)	10.561
Dollar threshold used to distinguish between Type A and Type B Program	<u>\$300,000</u>
Auditee qualified as low-risk auditee	<input type="checkbox"/> yes <input checked="" type="checkbox"/> no

II. FINANCIAL STATEMENTS FINDINGS SECTION

No matters were reported.

III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS SECTION

2014-001 ACTIVITIES ALLOWED OR UNALLOWED -- TIME AND EFFORT REPORTING

Grantors: U.S. Department of Health and Human Services -- HRSA, U.S. Department of Agriculture

Federal Program Names: Community Health Center -- 330 Grant, Title X -- Family Planning, Diabetes, Digestive and Kidney Diseases Extramural Research -- GRADE Study, Ryan White Out-Patient Early Intervention Part C, Supplemental Nutrition Assistance Program (SNAP)

CFDA Numbers: 93.224, 93.217, 93.847, 93.918, 10.561

Pass-through Entities: Planned Parenthood of Southern New England, Yale University School of Medicine, State of Connecticut Department of Social Services via Community Health Center Association of Connecticut

Criteria: As prescribed by the U.S. Office of Management and Budget (OMB), the distribution of salaries and wages must be supported by personnel activity reports. Reports reflecting the distribution of activity of each employee must be maintained for all applicable staff members whose compensation is charged in whole or in part to award programs. The reports must provide an after-the-fact determination of the actual activity of each employee. Budget estimates or estimates determined before the services are performed do not qualify as appropriate support.

The reports must be signed by the individual employee, or by a responsible supervisory official having first-hand knowledge of the activities performed by the employee, certifying that the distribution of activity represents a reasonable estimate of the actual work performed by the employee during the periods covered by the reports.

The reports must be prepared at least monthly and must coincide with one or more pay periods. The contract requirements state that "cost center to cost center" shifts in excess of the lesser of 10% of the line item amount or \$2,000 requires written notification to and approval by the grantor.

Condition: We noted instances where employee timesheets were either not prepared on a timely basis or prepared subsequently by other personnel, with input from applicable employees and supervisors. Accordingly, certain allocations of payroll to grant programs were not performed on a timely basis, as required by OMB Circular No. A-133.

Questioned Costs:

None.

Effect: Certain personnel costs were not supported by timely and appropriate time and effort reports.

Cause: The development of time and effort reporting procedures were in process, but not fully implemented by the Clinic during fiscal 2014.

Recommendation:

We recommend that time and effort reporting be fully implemented and that management develop additional procedures to ensure that proper and timely documentation of payroll allocations is maintained.

Views of Responsible Officials:

Certain time sheets were prepared incorrectly by employees or not completed as required by Clinic policy. Most time sheets were corrected or prepared by supervisory personnel with input from the applicable employees.

The Corporation has developed an electronic time and effort reporting system, and is currently working with its payroll provider to align its payroll and HR systems. Management is also in the process of identifying supervisory personnel to oversee compliance with the requirements of the systems and the timely preparation and submission of timesheets for all applicable personnel. The system is in the process of becoming fully functional during fiscal 2015.

IV. DISPOSITION OF PRIOR YEAR FINDINGS

2013-001 ACTIVITIES ALLOWED OR UNALLOWED – TIME AND EFFORT REPORTING

Grantor: U.S. Department of Health and Human Services – HRSA

Federal Program Names: ARRA – State Grants to Promote Health Information Technology, Ryan White Out-Patient Early Intervention Part C, Affordable Care Act-Nurse Managed Health Clinics, Women, Infants and Children

CFDA Numbers: 93.719, 93.918, 93.515, 10.557

Pass-through Entities: State of Connecticut Department of Social Services

Criteria: As prescribed by the U.S. Office of Management and Budget (OMB), the distribution of salaries and wages must be supported by personnel activity reports. Reports reflecting the distribution of activity of each employee must be maintained for all applicable staff members whose compensation is charged in whole or in part to award programs. The reports must provide an after-the-fact determination of the actual activity of each employee. Budget estimates or estimates determined before the services are performed do not qualify as appropriate support.

The reports must be signed by the individual employee, or by a responsible supervisory official having first-hand knowledge of the activities performed by the employee, certifying that the distribution of activity represents a reasonable estimate of the actual work performed by the employee during the periods covered by the reports.

The reports must be prepared at least monthly and must coincide with one or more pay periods. The contract requirements state that "cost center to cost center" shifts in excess of the lesser of 10% of the line item amount or \$2,000 requires written notification to and approval by the grantor.

Condition: We noted instances where employee timesheets were either not prepared on a timely basis or prepared subsequently by other personnel, with input from applicable employees and supervisors. Accordingly, certain allocations of payroll to grant programs were not performed on a timely basis, as required by OMB Circular No. A-133.

Questioned Costs:

None.

Effect: Certain personnel costs were not supported by timely and appropriate time and effort reports.

Cause: The development of time and effort reporting procedures were in process, but not fully implemented by the Clinic during fiscal 2013.

Recommendation:

We recommend that time and effort reporting be fully implemented and that management develop additional procedures to ensure that proper and timely documentation of payroll allocations is maintained.

Views of Responsible Officials:

Certain time sheets were prepared incorrectly by employees or not completed as required by Clinic policy. Most time sheets were corrected or prepared by supervisory personnel with input from the applicable employees.

The Corporation has developed an electronic time and effort reporting system, and is currently working with its payroll provider to align its payroll and HR systems. Management is also in the process of identifying supervisory personnel to oversee compliance with the requirements of the systems and the timely preparation and submission of timesheets for all applicable personnel. The system should be fully functional during fiscal 2014.

Disposition: A similar condition was noted in the current year. See 2014-001.

VISCONTI AND ASSOCIATES, P.C.
Certified Public Accountants



John J. Visconti, MS, CPA

REPORT IV

Independent Auditor's Report On Compliance for Each Major State Program; Report on Internal Control Over Compliance; and Report on the Schedule of Expenditures of State Financial Assistance Required by the State Single Audit Act

To the Board of Directors
Fair Haven Community Health Clinic, Inc.
374 Grand Avenue
New Haven, Connecticut 06513

ID#: 06-0883545

Report on Compliance for Each Major State Program

We have audited Fair Haven Community Health Clinic, Inc.'s compliance with the types of compliance requirements described in the Office of Policy and Management's *Compliance Supplement* that could have a direct and material effect on each of Fair Haven Community Health Clinic, Inc.'s major state programs for the year ended June 30, 2014. Fair Haven Community Health Clinic, Inc.'s major state programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. (Exhibit II)

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Fair Haven Community Health Clinic, Inc.'s major state 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 the State Single Audit Act. (C.G.S. Sections 4-230 to 4-236). Those standards and the State Single Audit Act 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 state program occurred. An audit includes examining, on a test basis, evidence about Fair Haven Community Health Clinic, Inc.'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 state program. However, our audit does not provide a legal determination of Fair Haven Community Health Clinic, Inc.'s compliance.

Opinion on Each Major State Program

In our opinion, Fair Haven Community Health Clinic, Inc. 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 state programs for the year ended June 30, 2014.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the State Single Audit Act and which are described in the accompanying state schedule of findings and questioned costs as items S2014-001 and S2014-002. Our opinion on each major state program is not modified with respect to these matters.

Fair Haven Community Health Clinic, Inc.'s response to the noncompliance findings identified in our audit are described in the accompanying state schedule of findings and questioned costs. Fair Haven Community Health Clinic, Inc.'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 Fair Haven Community Health Clinic, Inc. 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 Fair Haven Community Health Clinic, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on each major state program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major state program and to test and report on internal control over compliance in accordance with the State Single Audit Act, 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 Fair Haven Community Health Clinic, Inc.'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 state 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 state 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 state 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.

We noted other matters, not considered to be material weaknesses, involving internal controls and operating matters which we have reported to the management of Fair Haven Community Health Clinic, Inc. in a separate letter dated January 19, 2015.

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 the State Single Act. Accordingly, this report is not suitable for any other purpose.

Report on the Schedule of Expenditures of State Financial Assistance Required by the State Single Audit Act

We have audited the financial statements of Fair Haven Community Health Clinic, Inc. as of and for the year ended June 30, 2014 and have issued our report thereon dated January 19, 2015, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of state financial assistance is presented for purposes of additional analysis as required by the State Single Audit Act 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 state financial assistance is fairly stated in all material respects in relation to the financial statements as a whole.

Visconti & Associates, P.C.

January 19, 2015

SCHEDULE II

FAIR HAVEN COMMUNITY HEALTH CLINIC, INC.

**SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE
FOR THE YEAR ENDED JUNE 30, 2014**

State Grantor/ Pass-Through Grantor Program Title	State Grant Program Core-CT Number	Expenditures
DEPARTMENT OF PUBLIC HEALTH:		
Community Health Center Program:		
Preventive and Primary Care - CHC Services	11000-DPH48500-16060	\$593,521
School-Based Health Clinics - FHK8 Expansion	11000-DPH48500-17019	53,789
School-Based Health Clinics - passed through the City of New Haven Department of Education - The Body Shop	11000-DPH48500-17019	194,077
DEPARTMENT OF SOCIAL SERVICES:		
Elderly Services Division	11000-DSS61000-16123 Grant #093-FHC-EHS-16	73,892
Medicaid Outreach – passed through Community Health Center Association of CT	11000-DSS60000-10020	37,000
Nurturing Families Network	11000-OEC64840-12042	244,759
Nurturing Families Network - passed through Cornell Scott - Hill Health Center	11000-OEC64840-12042	403,330
DEPARTMENT OF MENTAL HEALTH AND ADDICTION SERVICES:		
Latino Behavioral Health System	09-MHA-1215 Core 12157	79,421
Riverside Education Academy	11000-MHA53000-12157	20,000
DEPARTMENT OF CORRECTION:		
Community Based Smoking Cessation and Prevention Program	12060-DOC88000-35478	<u>6,000</u>
TOTAL STATE FINANCIAL ASSISTANCE		<u>\$1,705,789</u>

See notes to Schedule and Auditor's Report on Supplemental Information.

FAIR HAVEN COMMUNITY HEALTH CLINIC, INC.

STATE FINANCIAL ASSISTANCE PROGRAMS NOTES TO SCHEDULE FOR THE YEAR ENDED JUNE 30, 2014

Various departments and agencies of the State of Connecticut have provided financial assistance to the Fair Haven Community Health Clinic, Inc. through grants and other authorizations in accordance with the General Statutes of the State of Connecticut. These financial assistance programs fund several programs including operations and capital expenditures.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Fair Haven Community Health Clinic, Inc. conform to accounting principles generally accepted in the United States of America as applicable to not-for-profit organizations. The following is a summary of the more significant policies relating to the aforementioned grant programs.

Basis of Accounting

The financial statements contained in the Fair Haven Community Health Clinic, Inc.'s annual audit report are prepared on the accrual basis. The following is a summary of such basis:

- . Revenues are recognized when earned.
- . Expenditures are recorded as incurred.

The schedule of expenditures of state financial assistance, contained in this report, is prepared based on regulations established by the State of Connecticut Office of Policy and Management. In accordance with these regulations (Section 4-236-22), certain grants are not dependent on expenditure activity, and accordingly, are considered to be expended in the fiscal year of receipt. These grant program receipts, if applicable, are reflected in the expenditures column of the schedule of expenditures of state financial assistance.

FAIR HAVEN COMMUNITY HEALTH CLINIC, INC.

**STATE SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2014**

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

State Financial Assistance:

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 4-236-24 of the Regulations to the State Single Audit Act? yes no

The following schedule reflects the major programs included in the audit:

<u>State Grantor and Program</u>	<u>State Core-CT Number</u>	<u>Expenditures</u>
DEPARTMENT OF PUBLIC HEALTH:		
Community Health Center Program: Preventive and Primary Care - CHC Services	11000-DPH48500-16060	\$593,521
DEPARTMENT OF SOCIAL SERVICES:		
Nurturing Families Network	11000-OEC64840-12042	\$648,089
Dollar threshold used to distinguish between Type A and Type B Program		<u>\$200,000</u>

II. FINANCIAL STATEMENT FINDINGS

No matters were reported.

III. STATE FINANCIAL ASSISTANCE FINDINGS AND QUESTIONED COSTS

S2014-001 ACTIVITIES ALLOWED OR UNALLOWED – TIME AND EFFORT REPORTING

Grantors: Department of Public Health, Department of Social Services

State Program Names: Nurturing Families Network, Community Health Center Program:
Prevention and Primary Care

State Program Identification Number: 11000-OEC64840-12042
11000-DPH48500-16060

Criteria: As prescribed by the Connecticut Office of Policy and Management Compliance Supplement, the distribution of salaries and wages must be supported by personnel activity reports. Reports reflecting the distribution of activity of each employee must be maintained for all applicable staff members whose compensation is charged in whole or in part to award programs. The reports must provide an after-the-fact determination of the actual activity of each employee. Budget estimates or estimates determined before the services are performed do not qualify as appropriate support.

The reports must be signed by the individual employee, or by a responsible supervisory official having first-hand knowledge of the activities performed by the employee, certifying that the distribution of activity represents a reasonable estimate of the actual work performed by the employee during the periods covered by the reports.

The reports must be prepared at least monthly and must coincide with one or more pay periods. The contract requirements state that "cost center to cost center" shifts in excess of the lesser of 10% of the line item amount or \$2,000 requires written notification to and approval by the grantor.

Condition: We noted instances where employee timesheets were either not prepared or prepared subsequently by other personnel, with input from applicable employees and supervisors. Accordingly, certain allocations of payroll to grant programs were not performed on a timely basis, as required by the State Single Audit Act.

Questioned Costs:

None.

Cause: The development of time and effort reporting procedures were in process, but not fully implemented by the Corporation during fiscal 2014.

Effect: Certain personnel costs were not supported by timely and appropriate time and effort reports.

Recommendation:

We recommend that time and effort reporting procedures be fully implemented and that management develop additional procedures to ensure that proper and timely documentation of payroll allocations are maintained.

Views of Responsible Officials:

Certain time sheets were prepared incorrectly by employees or not completed as required by Clinic policy. Most time sheets were corrected or prepared by supervisory personnel with input from the applicable employees.

The Clinic has developed an electronic time and effort reporting system, and is currently working with its payroll provider, to align its payroll and HR systems. Management is also in the process of identifying supervisory personnel to oversee compliance with the requirements of the systems and the timely preparation and submission of timesheets for all applicable personnel. The system is in the process of becoming fully functional during fiscal 2015.

S2014-002 MAJOR GRANT PROGRAMS

SPECIFIC REPORTING REQUIREMENTS - COMPLIANCE

Questioned Costs: None

Conditions: We noted during our testing that the following selected reports required by State guidelines and grant award agreements were not filed on, or prior to, the applicable report filing deadlines.

<u>Grant</u>	<u>Report Name</u>	<u>Date Due</u>	<u>Date Filed</u>	<u>Days Past Due</u>
Community Health Centers	Quarterly Financial Reports 7/1/13-10/31/13	11/30/13	2/10/14	72
Community Health Centers	Quarterly Programmatic Reports 11/1/13-2/28/14	3/31/14	4/25/14	25
Community Health Centers	Quarterly Programmatic Reports 3/1/14-6/30/14	9/30/14	11/6/14	37

Criteria: The State guidelines and grant award agreements require that the Clinic file applicable reports prior to report filing deadlines.

Cause: The Clinic receives several federal and state grant awards and, as such, is limited by its staffing resources to meet an ever larger number of reporting requirements.

Effect: The grantor may not have adequate information to appropriately monitor the programs. Failure to meet deadlines could result in a delay of cash receipts.

Recommendation: Management should file reports timely. In cases where deadlines cannot be met, written waivers should be obtained from the grantors. Management should also ensure that appropriate documentation of such filings is retained in the Clinic's files.

Views of Responsible Officials: Management will emphasize the importance of filing reports timely, and retaining copies of such filings, to the appropriate members of its staff.

IV. DISPOSITION OF PRIOR YEAR FINDINGS

S2013-001 ACTIVITIES ALLOWED OR UNALLOWED – TIME AND EFFORT REPORTING

Grantors: Department of Public Health, Department of Social Services

State Program Names: Nurturing Families Network, Community Health Center Program:
Prevention and Primary Care

State Program Identification Number: 11000-CTF94000-12042
11000-DPH48500-16060

Criteria: As prescribed by the Connecticut Office of Policy and Management Compliance Supplement, the distribution of salaries and wages must be supported by personnel activity reports. Reports reflecting the distribution of activity of each employee must be maintained for all applicable staff members whose compensation is charged in whole or in part to award programs. The reports must provide an after-the-fact determination of the actual activity of each employee. Budget estimates or estimates determined before the services are performed do not qualify as appropriate support.

The reports must be signed by the individual employee, or by a responsible supervisory official having first-hand knowledge of the activities performed by the employee, certifying that the distribution of activity represents a reasonable estimate of the actual work performed by the employee during the periods covered by the reports. The reports must be prepared at least monthly and must coincide with one or more pay periods. The contract requirements state that "cost center to cost center" shifts in excess of the lesser of 10% of the line item amount or \$2,000 requires written notification to and approval by the grantor.

Condition: We noted instances where employee timesheets were either not prepared or prepared subsequently by other personnel, with input from applicable employees and supervisors. Accordingly, certain allocations of payroll to grant programs were not performed on a timely basis, as required by the State Single Audit Act.

Questioned Costs:

None.

Cause: The development of time and effort reporting procedures were in process, but not fully implemented by the Corporation during fiscal 2013.

Effect: Certain personnel costs were not supported by timely and appropriate time and effort reports.

Recommendation:

We recommend that time and effort reporting procedures be fully implemented and that management develop additional procedures to ensure that proper and timely documentation of payroll allocations are maintained.

Views of Responsible Officials:

Certain time sheets were prepared incorrectly by employees or not completed as required by Clinic policy. Most time sheets were corrected or prepared by supervisory personnel with input from the applicable employees.

The Clinic has developed an electronic time and effort reporting system, and is currently working with its payroll provider, to align its payroll and HR systems. Management is also in the process of identifying supervisory personnel to oversee compliance with the requirements of the systems and the timely preparation and submission of timesheets for all applicable personnel. The system should be fully functional during fiscal 2014.

Disposition: A similar condition was noted in the current year. See **S2014-001**.

S2013-002 MAJOR GRANT PROGRAMS

SPECIFIC REPORTING REQUIREMENTS - COMPLIANCE

Questioned Costs: None

Conditions: We noted during our testing that the following selected reports required by State guidelines and grant award agreements were not filed on, or prior to, the applicable report filing deadlines.

<u>Grant</u>	<u>Report Name</u>	<u>Date Due</u>	<u>Date Filed</u>	<u>Days Past Due</u>
Nurturing Families Network	Quarterly Financial Reports	10/30/12	11/6/12	6
Community Health Centers	Quarterly Financial Reports	11/1/12	11/12/12	11

Criteria: The State guidelines and grant award agreements require that the Clinic file applicable reports prior to report filing deadlines.

Cause: The Clinic receives several federal and state grant awards and, as such, is limited by its staffing resources to meet an ever larger number of reporting requirements.

Effect: The grantor may not have adequate information to appropriately monitor the programs. Failure to meet deadlines could result in a delay of cash receipts.

Recommendation: Management should file reports timely. In cases where deadlines cannot be met, written waivers should be obtained from the grantors. Management should also ensure that appropriate documentation of such filings is retained in the Clinic's files.

Views of Responsible Officials: Management will emphasize the importance of filing reports timely, and retaining copies of such filings, to the appropriate members of its staff.

Disposition: A similar condition was noted in the current year. See **S2014-002**.