

**Hamilton Health Center, Inc.
and Subsidiary**

Financial Statements and
Supplementary Information

March 31, 2014 and 2013



BAKER TILLY

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Hamilton Health Center, Inc. and Subsidiary

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Independent Auditors' Report

Board of Directors
Hamilton Health Center, Inc. and Subsidiary

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Hamilton Health Center, Inc. and subsidiary (collectively, the "Corporation"), which comprise the consolidated balance sheet as of March 31, 2014 and 2013, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Hamilton Health Center, Inc. and subsidiary as of March 31, 2014 and 2013, and the results of their operations, changes in net assets, and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information presented on pages 21 - 26 is presented for purposes of additional analysis rather than to present the financial position, results of operations, and changes in net assets of the individual entities and is not a required part of the consolidated financial statements. The accompanying schedule of expenditures of federal awards presented on pages 27 - 28, as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is also presented for purposes of additional analysis and is not a required part of the consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 consolidated 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 23, 2015 on our consideration of the Corporation'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 the Corporation's internal control over financial reporting and compliance.

Baker Tilly Viechow Krause, LLP

Williamsport, Pennsylvania
January 23, 2015

Hamilton Health Center, Inc. and Subsidiary

Consolidated Balance Sheet

March 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 2,612,892	\$ 1,027,105
Accounts receivable:		
Patients, net of allowance for doubtful accounts of \$1,157,416 in 2014 and \$3,072,743 in 2013	873,762	987,753
Grants	504,934	669,180
Other	64,263	93,250
Interest receivable	160,854	-
Current portion of pledges receivable	650,642	147,660
Third-party payor settlements	-	440,976
Inventory of drugs and supplies	65,907	76,078
Prepaid expenses	18,384	92,641
	<u>4,951,638</u>	<u>3,534,643</u>
Total current assets	4,951,638	3,534,643
Property and Equipment, Net	15,745,190	15,472,414
Pledges Receivable	3,768,311	915,032
Interest in Net Assets Held by Others	29,934	24,731
Deferred Financing Costs, Net	577,206	598,323
	<u>\$ 25,072,279</u>	<u>\$ 20,545,143</u>
Liabilities and Net Assets		
Current Liabilities		
Demand note payable, bank	\$ 75,000	\$ -
Current portion of notes payable	295,265	921,640
Accounts payable:		
Trade	362,499	432,571
Construction	650,642	147,660
Accrued expenses	1,166,113	839,300
Third-party payor settlements	751,609	-
Deferred revenue	129,132	81,369
	<u>3,430,260</u>	<u>2,422,540</u>
Total current liabilities	3,430,260	2,422,540
Notes Payable	11,204,070	11,497,404
	<u>14,634,330</u>	<u>13,919,944</u>
Total liabilities	14,634,330	13,919,944
Net Assets		
Unrestricted	4,226,708	5,547,337
Temporarily restricted	6,211,241	1,077,862
	<u>10,437,949</u>	<u>6,625,199</u>
Total net assets	10,437,949	6,625,199
	<u>\$ 25,072,279</u>	<u>\$ 20,545,143</u>
Total liabilities and net assets	\$ 25,072,279	\$ 20,545,143

See notes to consolidated financial statements

Hamilton Health Center, Inc. and Subsidiary

Consolidated Statement of Operations
Years Ended March 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Unrestricted Revenues and Other Support		
Net patient service revenues (net of contractual allowances and discounts)	\$ 4,884,749	\$ 5,204,440
Provision for bad debts	<u>(667,759)</u>	<u>(470,949)</u>
Net patient service revenues less provision for bad debts	4,216,990	4,733,491
Grant revenue	4,926,179	4,372,779
Premium revenue	2,215,016	1,899,952
Pharmacy revenue	2,227,635	1,884,237
Incentive program revenue	94,340	335,750
Interest income	94,619	95,121
Contributions	55,078	57,782
Other	62,550	67,136
Rental income	46,237	28,445
Net assets released from restriction for operations	<u>-</u>	<u>33,171</u>
Total unrestricted revenues and other support	<u>13,938,644</u>	<u>13,507,864</u>
Expenses		
Salaries and benefits	9,428,047	8,523,656
Medical supplies and drugs	2,175,159	1,768,016
Contracted services	1,710,660	1,704,730
Other expenses	1,062,457	691,888
Depreciation and amortization	680,744	499,041
Interest expense (net of capitalized interest of \$40,602 in 2013)	592,097	612,420
Utilities	187,572	193,490
Insurance	81,375	78,927
Rental expense	72,664	89,770
Loss on refinancing	<u>-</u>	<u>8,237</u>
Total expenses	<u>15,990,775</u>	<u>14,170,175</u>
Revenues less than expenses	(2,052,131)	(662,311)
Grant Income Used for Long Term Purposes	314,704	3,218,400
Net Assets Released from Restrictions for Purchases of Property and Equipment	<u>416,798</u>	<u>-</u>
(Decrease) increase in unrestricted net assets	<u>\$ (1,320,629)</u>	<u>\$ 2,556,089</u>

See notes to consolidated financial statements

Hamilton Health Center, Inc. and Subsidiary

Consolidated Statement of Changes in Net Assets

Years Ended March 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Unrestricted Net Assets		
Revenues less than expenses	\$ (2,052,131)	\$ (662,311)
Grant income used for long term purposes	314,704	3,218,400
Net assets released from restrictions for purchases of property	<u>416,798</u>	<u>-</u>
(Decrease) increase in unrestricted net assets	<u>(1,320,629)</u>	<u>2,556,089</u>
Temporarily Restricted Net Assets		
Restricted contributions	5,550,177	1,086,993
Net assets released from restriction	<u>(416,798)</u>	<u>(33,171)</u>
Increase in temporarily restricted net assets	<u>5,133,379</u>	<u>1,053,822</u>
Increase in net assets	<u>3,812,750</u>	<u>3,609,911</u>
Net Assets, Beginning	<u>6,625,199</u>	<u>3,015,288</u>
Net Assets, Ending	<u><u>\$ 10,437,949</u></u>	<u><u>\$ 6,625,199</u></u>

See notes to consolidated financial statements

Hamilton Health Center, Inc. and Subsidiary

Consolidated Statement of Cash Flows
Years Ended March 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Cash Flows from Operating Activities		
Increase in net assets	\$ 3,812,750	\$ 3,609,911
Adjustments to reconcile increase in net assets to net cash used in operating activities:		
Depreciation and amortization	680,744	499,041
Provision for bad debts	667,759	470,949
Restricted contributions	(5,550,177)	(1,086,993)
Grants for long-term purposes	(314,704)	(3,218,400)
Change in assets and liabilities:		
Accounts receivable	(360,535)	(1,041,386)
Interest receivable	(160,854)	-
Inventory	10,171	7,485
Prepaid expenses	74,257	2,170
Accounts payable, trade	(70,072)	121,384
Accrued expenses	326,813	(57,948)
Third-party settlements	1,192,585	(73,690)
Deferred revenue	47,763	(108,917)
Net cash provided by (used in) operating activities	<u>356,500</u>	<u>(876,394)</u>
Cash Flows from Investing Activities		
Purchase of property and equipment	(429,421)	(5,543,744)
Increase in interest in net assets held by others	(5,203)	(1,483)
Net cash used in investing activities	<u>(434,624)</u>	<u>(5,545,227)</u>
Cash Flows from Financing Activities		
Borrowings from demand note payable, bank	75,000	-
Payments on long-term borrowings	(919,709)	(2,873,279)
Proceeds from restricted contributions	2,193,916	43,171
Proceeds from grants for long-term purposes	314,704	3,218,400
Proceeds from long-term borrowings	-	35,657
Payment of financing costs	-	(10,000)
Net cash provided by financing activities	<u>1,663,911</u>	<u>413,949</u>
Net increase (decrease) in cash	1,585,787	(6,007,672)
Cash and Cash Equivalents, Beginning	<u>1,027,105</u>	<u>7,034,777</u>
Cash and Cash Equivalents, Ending	<u>\$ 2,612,892</u>	<u>\$ 1,027,105</u>
Supplemental Disclosure of Cash Flow Information		
Cash paid for interest	<u>\$ 700,321</u>	<u>\$ 640,290</u>
Noncash Investing and Financing Activity		
Obligations incurred for the acquisition of property and equipment	<u>\$ 650,642</u>	<u>\$ 147,660</u>

See notes to consolidated financial statements

Hamilton Health Center, Inc. and Subsidiary

Notes to Consolidated Financial Statements

March 31, 2014 and 2013

1. Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Hamilton Health Center, Inc. (the "Center") is a nonprofit corporation that provides medical and dental services to all requesting individuals within the greater Harrisburg, Pennsylvania area. The Center has been designated a Federally Qualified Health Center ("FQHC"). Accordingly, in cases where patients are economically unable to pay, discounts are provided as required by federal regulations.

During 2012, the Center formed Hamilton Health Center Community Services, Inc. ("HHCCS"), a wholly controlled subsidiary of the Center. HHCCS was formed for the purpose of renovating a building to house the Center's clinical areas (medical and dental) and for the Women, Infants and Children ("WIC") program.

Basis of Consolidation

The consolidated financial statements include the accounts of the Center and its subsidiary, HHCCS (collectively, the "Corporation"). All significant intra-entity balances and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect 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. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include investments in highly liquid debt instruments purchased with a maturity of three months or less.

Accounts Receivable, Patients

Patient accounts receivable are reported at net realizable value. Accounts are written off when they are determined to be uncollectible based upon management's assessment of individual accounts. In evaluating the collectability of patient accounts receivable, the Corporation analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. For receivables associated with services provided to patients who have third-party coverage, the Corporation analyzes contractual amounts due and provides an allowance for doubtful accounts and a provision for bad debts, if necessary. For receivables associated with self-pay patients, the Corporation records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable to pay the portion of their bill for which they are financially responsible. The difference between the billed rates and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

Hamilton Health Center, Inc. and Subsidiary

Notes to Consolidated Financial Statements

March 31, 2014 and 2013

The Corporation's allowance for doubtful accounts for self-pay patients is 76% of self-pay accounts receivable at March 31, 2014 and 94% at March 31, 2013. In addition, the Corporation's self-pay account write-offs (net of recoveries) were approximately \$2,600,000 in 2014 and \$40,000 in 2013. The Corporation did not significantly change its patient financial assistance policy in 2014, however a significant number of accounts deemed uncollectible were written off in 2014. The Corporation does not maintain a material allowance for doubtful accounts from third-party payors, nor did it have significant write-offs from third-party payors.

Inventory of Drugs and Supplies

The inventory of drugs and medical supplies is stated at the lower of cost or market. Cost is determined on a first-in, first-out basis.

Pledges Receivable

Unconditional promises to give (i.e., pledges receivable) are recognized as revenues or gains in the period received as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

Donor-Restricted Gifts

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statement of operations as net assets released from restrictions.

Property and Equipment, Net

Property and equipment is stated at cost, net of accumulated depreciation. Contributed property and equipment is recorded at fair value as of the date contributed. Depreciation is provided using the straight-line method over the estimated useful lives as follows:

Land improvements	10 - 15 years
Building and building improvements	5 - 39 years
Equipment, furniture and fixtures	3 - 29 years
Vehicles	4 - 5 years

Property and equipment acquired with U.S. Department of Health and Human Services ("DHHS") funds are considered to be owned by the Corporation while in use by current or future authorized programs. However, DHHS retains a reversionary interest in these assets as well as the right to determine the use of any proceeds from the sale of such assets. Accordingly, the Corporation may not transfer, mortgage, assign, lease or in any other manner, encumber certain items without the prior approval of DHHS.

Hamilton Health Center, Inc. and Subsidiary

Notes to Consolidated Financial Statements

March 31, 2014 and 2013

Individual items which have a cost of \$600 or more, or homogeneous groups of items that have a cost of \$1,000 or more, and have a useful life in excess of two years are capitalized. Upon sale or disposition, the asset account is relieved of the cost and the accumulated depreciation account is charged with the depreciation taken prior to the sale. The resulting gain or loss is credited or charged to operations.

Gifts of long-lived assets such as land, buildings, or equipment are reported as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Property and equipment are evaluated for impairment whenever events and changes in circumstances indicate the carrying value of an asset may not be recoverable. If long-lived assets are deemed impaired, the impairment to be recognized is measured as the amount by which the carrying amount of the assets exceeds fair value. There were no impairment losses recorded in 2014 or 2013 based on estimated cash flows from use and eventual disposition.

Deferred Financing Costs

Costs incurred in connection with the issuance of long-term debt have been deferred and are being amortized over the term of the debt using the effective interest method. Amortization of deferred financing costs amounted to \$21,117 in 2014 and \$43,432 in 2013. Accumulated amortization was \$56,312 at March 31, 2014 and \$35,195 at March 31, 2013. Deferred financing costs of \$8,237 were written off during 2013 in the accompanying consolidated statement of operations. These costs related to debt that was refinanced during 2013.

Deferred Revenue

The Corporation recognizes revenue as earned. Amounts received in advance of the period for which the service is rendered are deferred.

Advertising

Advertising costs are expensed as incurred, and were approximately \$129,000 in 2014 and \$92,000 in 2013.

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by the Corporation has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the Corporation in perpetuity. There were no permanently restricted net assets at March 31, 2014 and 2013.

Hamilton Health Center, Inc. and Subsidiary

Notes to Consolidated Financial Statements

March 31, 2014 and 2013

Revenues Less Than Expenses

The consolidated statement of operations includes the determination of revenues less than expenses. Changes in unrestricted net assets excluded from the determination of revenues less than expenses, consistent with industry practice, include grant income used for long term purposes.

Net Patient Service Revenues

The Corporation reports net patient service revenue at the estimated net realizable amounts from patients, third party payors, and others for services rendered, including an estimate for retroactive adjustments that may occur as a result of future audits and reviews. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits and reviews. Net patient service revenue as reported in the consolidated statements of operations is reduced both by (1) estimated allowances for the excess of charges over anticipated patient or third party payor payments (i.e. contractual allowances) and (2) a provision for doubtful accounts.

Patient accounts receivable are reported at net realizable value and include charges for accounts due from Medicare, Medicaid, other commercial and managed care insurers, and self-pay patients. Patient accounts receivable also includes management's estimate of the impact of certain undercharges to be recouped or overcharges to be paid back for inpatient and outpatient services in subsequent years. Deducted from patient accounts receivable are estimates of doubtful collections related to patients and allowances for the excess of charges over the payments to be received from third party payors.

The Corporation has agreements with third-party payors that provide for payments to the Corporation at amounts different from its established rates. The Corporation recognizes patient service revenue associated with services provided to patients who have third-party payor coverage on the basis of these established rates for the services rendered. For uninsured patients that do not qualify for charity care, the Corporation recognizes revenues on the basis of its standard rates, discounted in accordance with the Corporation's policy. On the basis of historical experience, a significant portion of the Corporation's uninsured patients will be unable to pay for the services provided. Thus, the Corporation records a significant provision for doubtful collections related to uninsured patients in the period the services are provided. Patient service revenues, net of contractual allowances and discounts (but before the provision for doubtful accounts), recognized in 2014 and 2013 from these major payor sources, are as follows:

	Third-Party Government Payors	Third-Party Commercial Payors	Self Pay	Total
March 31, 2014	<u>\$ 3,001,683</u>	<u>\$ 533,197</u>	<u>\$ 1,349,869</u>	<u>\$ 4,884,749</u>
March 31, 2013	<u>\$ 3,919,342</u>	<u>\$ 389,629</u>	<u>\$ 895,469</u>	<u>\$ 5,204,440</u>

Hamilton Health Center, Inc. and Subsidiary

Notes to Consolidated Financial Statements
March 31, 2014 and 2013

Premium Revenue

The Corporation has agreements with various Health Maintenance Corporations (“HMOs”) to provide medical services to subscribing participants. Under these agreements, the Corporation receives monthly capitation payments based on the number of HMO participants, regardless of services actually performed by the Corporation. In addition, the HMO's make fee-for-service payments to the Corporation for certain covered services based upon discounted fee schedules.

Sliding Fees

The Corporation has a sliding fee schedule for patients who meet certain criteria under its charity care policy. The sliding fees are amounts less than established rates. Because the Corporation does not pursue collection of amounts determined to qualify as charity care, they are not reported as net patient service revenues.

The Corporation maintains records to identify and monitor the level of charity care it provides. The costs associated with the charity care services provided are estimated by applying a cost-to-charge ratio to the difference between established rates and the sliding fees for qualified patients. The level of charity care provided by the Corporation amounted to approximately \$1,872,000 in 2014 and \$1,860,000 in 2013.

Income Taxes

The Center and HHCCS are not-for-profit corporations as described in Section 501(c)(3) of the Internal Revenue Code and exempt from federal income taxes on their exempt income under Section 501(a) of the Internal Revenue Code.

The Corporation accounts for uncertainty in income taxes using a recognition threshold of more-likely-than-not to be sustained upon examination by the appropriate taxing authority. Measurement of the tax uncertainty occurs if the recognition threshold has been met. Management determined that there were no tax uncertainties that met the recognition threshold in 2014 and 2013.

The Corporation's federal Returns of Corporation Exempt From Income Tax for the years ended prior to March 31, 2011 are no longer subject to examination by the Internal Revenue Service.

Subsequent Events

The Corporation evaluated subsequent events for recognition or disclosure through January 23, 2015, the date the consolidated financial statements were available to be issued.

Reclassifications

Certain amounts have been reclassified in the 2013 consolidated financial statements to conform to the 2014 presentation.

Hamilton Health Center, Inc. and Subsidiary

Notes to Consolidated Financial Statements
March 31, 2014 and 2013

2. New Accounting Standard

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2014-09, Revenue from Contracts with Customers (Topic 606). ASU No. 2014-09 supercedes the revenue recognition requirements in Topic 605, Revenue Recognition, and most industry-specific guidance. Under the requirements of ASU No. 2014-09, the core principle is that entities should recognize revenue to depict the transfer of promised goods or services to customers (patients) in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The Corporation will be required to retrospectively adopt the guidance in ASU No. 2014-09 for years beginning after December 15, 2017 (i.e. its fiscal year ended March 31, 2018); early application is not permitted. The Corporation has not yet determined the impact of adoption of ASU No. 2014-09 on its consolidated financial statements.

3. Management’s Plans and Business Risk

The accompanying consolidated financial statements reflect revenues less than expenses of approximately \$2,052,000 in 2014. The 2014 results are primarily due to compliance issues that were detected by the Corporation and self-disclosed to the appropriate parties. These issues resulted in an increase in the revenues less than expenses of approximately \$1,350,000 during 2014. The Corporation expanded its operations during 2013 when it opened Phase 1 of its new facility. The Corporation is continuing to add capacity as it moves into Phase 2 of the new facility renovations. The Corporation has undertaken a successful capital campaign related to Phase 2 of the new facility, which has provided significant amounts of donor financing for the facility. Furthermore, construction costs for Phase II have come in on time and under budget through the date the consolidated financial statements were available for issuance. Finally, 25% of the pledges received through the capital campaign are designated to cover the increased costs of Phase 2 operations.

Management has developed a financial improvement plan to increase profitability, primarily through increased volumes in its new facility, ongoing expense monitoring, and a commitment to identifying alternative revenue streams. During 2013 and 2014, the Corporation incurred start-up costs related to the expansion of its operations, primarily related to the addition of providers and support staff in order to sustain the increase in patient volume. Costs also increased for the Corporation due to the addition of a new service. With the capacity available in Phase 1, the Corporation was able to begin providing Behavioral Health services for the first time in its history. Finally, once the Phase 2 renovations are complete, the Corporation can shift its fundraising focus to operational assistance, as the fundraising focus in recent years has been on capital improvements.

The Corporation’s success with management’s plan will depend, in part, on economic and other factors outside of the Corporation’s control. Management believes that the actions that have been taken to increase revenue, reduce operating costs, and provide donor financing for Phase 2 of its new facility renovations will provide the opportunity for the Corporation to sustain its future operations.

Hamilton Health Center, Inc. and Subsidiary

Notes to Consolidated Financial Statements
March 31, 2014 and 2013

4. Net Patient Service Revenue

A summary of the payment arrangements with major third party payors is as follows:

Medicare: Services provided to Medicare program beneficiaries were paid at an estimated interim rate with final settlement to be determined by the Medicare fiscal intermediary after its review of the Corporation's final cost report. The final rates to be paid are subject to limitations. Approximately 3% in 2014 and 5% in 2013 of net patient service revenues are attributable to the Medicare Program.

Medical Assistance: Services provided to Medical Assistance program beneficiaries are reimbursed based on a prospective payment system. Approximately 7% in 2014 and 10% in 2013 of net patient service revenues are attributable to the Medical Assistance program.

Medical Assistance HMO: The Corporation maintains agreements with publicly sponsored HMO's licensed by the Commonwealth of Pennsylvania, Department of Insurance. The Corporation receives both capitation payments for patients enrolled with these plans as well as fee-for-service revenue through the provision of specialized treatment and dental procedures. The Corporation also receives wrap-around payments for services provided to this patient base, allowing the Corporation to receive full prospective payment reimbursement at the rates determined under the Medical Assistance reimbursement methodology described above. Approximately 50% in 2014 and 64% in 2013 of net patient service revenues are attributable to the Medical Assistance HMO program.

Net patient service revenues were decreased approximately \$1,077,000 in 2014 as a result of adjustments related to tentative and final settlements of prior year cost reports and other settlements (Note 13). There were no such adjustments recorded in 2013.

The Corporation also entered into payment agreements with certain commercial insurance carriers, health maintenance Corporations, and preferred provider Corporations. The basis for payment to the Corporation under these agreements includes capitation payments, as well as negotiated rates based on specialty and dental services provided.

Hamilton Health Center, Inc. and Subsidiary

Notes to Consolidated Financial Statements
March 31, 2014 and 2013

5. Grants Receivable

Grants receivable consists of the following at March 31, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
PA Department of Health, Women, Infants and Children Program	\$ 120,601	\$ 132,732
PA Department of Health, Refugee Health Program	110,855	52,429
Department of Health and Human Services, Healthy Start Initiative	63,311	64,519
Family Health Council of Central Pennsylvania, Family Planning Program	58,302	5,759
PA Department of Public Welfare, CHIPRA Program	42,899	12,322
Department of Health and Human Services, Ryan White Part C Outpatient EIS Program	30,284	31,378
Dauphin County Department of Drug and Alcohol Services, Baby Love Program	14,434	13,846
Commonwealth of PA Redevelopment Assistance Capital Program	4,374	16,150
Miscellaneous RACP	59,874	36,740
	<u>-</u>	<u>303,305</u>
Total	<u>\$ 504,934</u>	<u>\$ 669,180</u>

6. Pledges Receivable

A fundraising campaign has been undertaken to raise funds for the renovation of Phase 2 of the new facility. Pledges related to this campaign have been recorded as temporarily restricted contributions.

Outstanding pledges at March 31, 2014 and 2013 are expected to be received as follows:

	<u>2014</u>	<u>2013</u>
Less than one year	\$ 2,911,793	\$ 18,626
One to five years	<u>1,661,378</u>	<u>1,060,494</u>
Gross pledges receivable before unamortized discount and allowance for uncollectible pledges	4,573,171	1,079,120
Unamortized discount and allowance for uncollectible pledges	<u>(154,218)</u>	<u>(16,428)</u>
Net unconditional promises to give	<u>\$ 4,418,953</u>	<u>\$ 1,062,692</u>

The discount rate utilized to discount pledges receivable was 1.73% at March 31, 2014 and 0.77% at March 31, 2013.

Hamilton Health Center, Inc. and Subsidiary

Notes to Consolidated Financial Statements
March 31, 2014 and 2013

Pledges receivable have been classified as follows in the accompanying consolidated balance sheet at March 31:

	<u>2013</u>	<u>2012</u>
Current portion of pledges receivable	\$ 650,642	\$ 147,660
Pledges receivable	<u>3,768,311</u>	<u>915,032</u>
Total	<u>\$ 4,418,953</u>	<u>\$ 1,062,692</u>

7. Property and Equipment, Net

Property and equipment and accumulated depreciation consist of the following at March 31, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Land and improvements	\$ 1,478,460	\$ 1,478,460
Building and improvements	13,968,360	13,965,109
Fixed equipment and vehicles	5,861,075	5,776,732
Construction in progress	<u>844,809</u>	<u>-</u>
Total	22,152,704	21,220,301
Less accumulated depreciation	<u>6,407,514</u>	<u>5,747,887</u>
Property and equipment, net	<u>\$ 15,745,190</u>	<u>\$ 15,472,414</u>

Commitments for construction contracts related to Phase II of the health center project totaled approximately \$4,800,000 at March 31, 2014.

Depreciation expense was \$659,627 in 2014 and \$455,609 in 2013.

8. Demand Notes Payable

The Corporation has a line of credit agreement in the amount of \$600,000 with Fulton Bank. Borrowings under the agreement bear interest at the bank's Prime Rate, but in no event will be less than 4.00% per annum. The line of credit is secured by certain assets owned by the Corporation. There were borrowings outstanding of \$75,000 at March 31, 2014. No borrowings were outstanding under this line of credit at March 31, 2013.

Hamilton Health Center, Inc. and Subsidiary

Notes to Consolidated Financial Statements
March 31, 2014 and 2013

9. Mortgages and Notes Payable

Mortgages and notes payable at March 31, 2014 and 2013 consist of the following:

	<u>2014</u>	<u>2013</u>
Mortgage note payable to Fulton Bank in monthly installments of \$6,515, including interest at 4.05% per annum, through February 2020. The mortgage is secured by certain assets owned by the Corporation.	\$ 415,047	\$ 475,000
Note payable to the City of Harrisburg in monthly installments of \$775, including interest at 3.00% per annum, through November 2015. The note is unsecured.	40,448	48,395
Senior Loan to Fulton Bank	7,423,420	7,582,220
Note Payable to Commonwealth Cornerstone Group LTD, XVIII.	2,012,710	2,012,710
Note payable to City First Capital XVII, LLC.	1,607,710	1,607,710
Bridge loan to Fulton Bank, repaid in 2014	-	693,009
	<u>11,499,335</u>	<u>12,419,044</u>
Total long-term debt		
	11,499,335	12,419,044
Less current portion of long-term debt	<u>295,265</u>	<u>921,640</u>
Long-term debt	<u>\$ 11,204,070</u>	<u>\$ 11,497,404</u>

As part of the tax credit project for the renovation of the new facility, the Center entered into a Senior Loan with Fulton Bank for \$7,582,220, which was subsequently loaned to Hamilton Health Center Investment Fund, LP (the "Investment Fund"), a single purpose investment fund wholly-owned by an affiliate of the Bank, to make corresponding investments in Commonwealth Cornerstone Group LTD, XIII and City First Capital XVII, LLC. Quarterly interest only payments were made until September 2013, when quarterly principal and interest payments commenced, and are payable through August 2033. The interest rate on this note is 5.25% per annum through August 2016, at which time and through the remaining term of the note, the note shall bear interest at a variable rate equal to the Prime Rate but in no event will be less than 4.00% per annum. The note is secured by a security interest in the Investment Funds' interest in the Community Development Entities and all dividends, distributions, cash and other investment instruments.

In connection with the tax credit project, HHCCS entered into a note payable to Commonwealth Cornerstone Group LTD, XII for \$2,012,710. Quarterly interest only payments are due until August 2018, when quarterly principal and interest payments commence through August 2041. The interest rate on this note is 4.49% per annum. This note is secured by a first mortgage lien on the property and assignment of leases, rents, and fixtures.

In addition, HHCCS entered into a note payable to City First Capital XVII, LLC for \$1,607,710. Quarterly interest only payments are due until August 2018, when quarterly principal and interest payments commence through August 2041. The interest rate on this note is 4.49% per annum. This note is secured by a first mortgage lien on the property and assignment of leases, rents, and fixtures.

Hamilton Health Center, Inc. and Subsidiary

Notes to Consolidated Financial Statements

March 31, 2014 and 2013

In connection with the tax credit project, the Center also entered into a Bridge Loan with Fulton Bank for \$3,508,104, which was subsequently loaned to Hamilton Health Center Investment Fund, LP (the "Investment Fund"), a single purpose investment fund wholly-owned by an affiliate of the Bank, to make corresponding investments in Commonwealth Cornerstone Group LTD, XIII and City First Capital XVII, LLC. Quarterly interest only payments were due until June 30, 2013, when one final payment of all outstanding principal and interest of the note was made.

Scheduled principal repayments on long-term debt at March 31, 2014 are as follows:

2015	\$	295,265
2016		333,978
2017		317,211
2018		371,697
2019		445,340
Thereafter		<u>9,735,844</u>
Total	\$	<u>11,499,335</u>

These notes payable and the line-of-credit (Note 8) contain financial covenants that must be met related to its annual debt coverage ratio and submission of audited financial statements. As of March 31, 2014, the Corporation was not in compliance with these financial covenants; however, the Corporation subsequently received a waiver from Fulton Bank (Note 18).

10. Accrued Expenses

Accrued expenses at March 31, 2014 and 2013 are comprised of the following:

	<u>2014</u>	<u>2013</u>
Salaries and wages	\$ 361,369	\$ 292,837
Other	360,548	260,822
Vacation wages	301,417	33,223
Retirement contribution	114,368	121,317
Payroll taxes and withholdings	28,411	22,877
Interest	-	108,224
Total	<u>\$ 1,166,113</u>	<u>\$ 839,300</u>

11. Defined Contribution Plan

The Corporation sponsors a defined contribution pension plan covering substantially all employees. Employee participation in the plan is voluntary. The Corporation match is dependent upon board approval. The cost of the defined contribution pension plan amounted to \$83,691 in 2014 and \$83,999 in 2013.

Hamilton Health Center, Inc. and Subsidiary

Notes to Consolidated Financial Statements
March 31, 2014 and 2013

12. Lease Commitments

The following is a schedule by year of future minimum lease payments required under operating leases that have initial or remaining noncancelable lease terms in excess of one year as of March 31, 2014:

Years ending March 31:	
2015	\$ 47,538
2016	39,628
2017	37,207
2018	<u>12,229</u>
Total minimum future rentals	<u>\$ 136,602</u>

Rent expense for operating leases totaled approximately \$53,000 in 2014 and \$51,000 in 2013.

13. Contingencies

Federal and State Awards

The Corporation participates in both state and federally assisted grant programs. These programs are subject to program compliance audits by the grantors or their representatives. The Corporation is potentially liable for any expenditures which may be disallowed pursuant to the terms of these grant programs. Management is not aware of any material items of noncompliance which would result in the disallowance of program expenditures.

Healthcare Industry

The healthcare industry is subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations is subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time. Government activity continues to increase with respect to investigations and allegations concerning possible violations by healthcare providers of fraud and abuse statutes and regulations, which could result in the imposition of significant fines and penalties as well as significant repayments for patient services previously billed. Management is not aware of any material incidents of noncompliance that have not been provided for in the accompanying consolidated financial statements; however, the possible future financial effects of this matter on the Corporation, if any, are not determinable.

Pennsylvania Department of Public Welfare

The Corporation self-reported a possible billing inaccuracy to the PA Department of Public Welfare ("DPW"), which resulted in the recording of an estimated liability of approximately \$1,213,000 at March 31, 2014; such liability is included in estimated third party payor settlements in the accompanying consolidated balance sheet. During the process, the Corporation also identified and reported a potential error in the calculation of the Medical Assistance Prospective Payment System Rate (the "PPS Rate"). That potential error in calculation could result in an estimated balance of approximately \$539,000 due to the Corporation. Because the calculation is still pending review and approval by DPW, no receivable has been recorded at March 31, 2014 for the \$539,000.

Hamilton Health Center, Inc. and Subsidiary

Notes to Consolidated Financial Statements
March 31, 2014 and 2013

The Corporation added Behavioral Health Services in September 2013. In accordance with PA Medical Assistance procedures, the addition of a service entitles the Corporation to an adjustment in the PPS Rate. The adjustment will be made after the filing of a Medical Assistance Cost Report by the Corporation, which will be filed at the conclusion of the fiscal year ending March 31, 2015. The adjustment in the rate will be applicable to all Medical Assistance patient encounters from September 2013 until the date of the actual change in the rate. This will result in a lump sum retroactive payment to the Corporation, which is estimated to be approximately \$579,000, of which approximately \$137,000 relates to visits during the period September 1, 2013 through March 31, 2013. As such, the Corporation has recorded a receivable from DPW for \$137,000 at March 31, 2013; such amount is included in estimated third party payor settlements in the accompanying consolidated balance sheet.

While it is the intention of the Corporation to net the receivables and liability noted above, the ultimate outcome is uncertain as it is pending resolution with DPW.

14. Medical Malpractice Claims Coverage

The Corporation was deemed to be an employee of the federal government under Section 224(h) of the Public Health Service (“PHS”) Act, 42, U.S.C. 233(h) as amended by the Federally Supported Health Centers Assistance Act of 1995. Section 224 of the PHS Act provides malpractice insurance coverage for all activities within the scope of its PHS grant under the Federal Tort Claims Act. This coverage is provided at no charge to the Corporation and there are no per occurrence or aggregate limits. The Corporation is required to be redeemed annually, and is currently in the process of doing this.

The Corporation maintains “gap” malpractice insurance policies to cover any Corporation physicians for activities performed outside the scope of its PHS grant.

15. Temporarily Restricted Net Assets

Temporarily restricted net assets consist of the following at March 31, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Capital campaign pledges receivable	\$ 6,206,071	\$ 1,072,692
Memorial fund for social services	5,170	5,170
Total	<u>\$ 6,211,241</u>	<u>\$ 1,077,862</u>

16. Concentrations of Credit Risk

The Corporation receives a substantial portion of its revenue from a grant with the U.S. Department of Health and Human Services. Any significant reductions in this grant could have an adverse impact on the Corporation.

The Corporation maintains substantially all of its cash and cash equivalents with financial institutions. Total cash balances are insured up to \$250,000 by the Federal Deposit Insurance

Hamilton Health Center, Inc. and Subsidiary

Notes to Consolidated Financial Statements

March 31, 2014 and 2013

Corporation. The balances at times may exceed the insurance limit and management considers this to be a normal business risk.

The Corporation grants credit without collateral to its patients, most of whom are local residents insured under third-party payor arrangements, primarily with Medicare, Medical Assistance, Medical Assistance HMO, and various commercial insurance companies. The Corporation maintains allowances for potential credit losses and such losses have historically been within management's expectations.

The mix of accounts receivables, patients at March 31, 2014 and 2013 is as follows:

	<u>2014</u>	<u>2013</u>
Medicare	9 %	22 %
Medical Assistance	10	24
Medical Assistance HMO	25	18
Other third-party payors	20	11
Patients (self pay)	<u>36</u>	<u>25</u>
	<u>100 %</u>	<u>100 %</u>

17. Functional Expenses

The Corporation provides dental and primary care physician services to individuals within its geographic location. Expenses related to providing these services for 2014 and 2013 are approximately as follows (in thousands):

	<u>2014</u>	<u>2013</u>
Healthcare and other related services	\$ 13,476	\$ 12,006
General and administrative	2,276	2,119
Fundraising	<u>239</u>	<u>45</u>
Total	<u>\$ 15,991</u>	<u>\$ 14,170</u>

18. Subsequent Events

The Corporation entered into a note payable with Fulton Bank to provide financing for Phase II of the health center project on April 15, 2014. Borrowings of up to \$3,500,000 are available to the Corporation under the terms of the agreement. Interest only payments are due on a monthly basis commencing in May 2014. Interest is payable at Fulton's Bank's prime rate, as defined, but in no event less than 4% annually. The note is payable in full on May 15, 2016. At the date the consolidated financial statements were available to be issued, the Corporation had borrowed approximately \$1,475,000 under the terms of this note payable.

The Corporation received a waiver of the covenant violations for the year ended March 31, 2014 (Note 9) from Fulton Bank on January 2, 2015. Management is not aware of any covenant violations for the period April 1, 2014 through the date the accompanying consolidated financial statements were available to be issued. The next measurement period for the debt coverage ratio is March 31, 2015.

Hamilton Health Center, Inc. and Subsidiary

Consolidating Balance Sheet Schedule

March 31, 2014

	<u>Hamilton Health Center</u>	<u>Hamilton Health Center Community Services, Inc.</u>	<u>Eliminations</u>	<u>Consolidated Total</u>
Assets				
Current Assets				
Cash and cash equivalents	\$ 2,497,269	\$ 115,623	\$ -	\$ 2,612,892
Accounts receivable:				
Patients, net of allowance for doubtful accounts of \$1,157,416	873,762	-	-	873,762
Grants	504,934	-	-	504,934
Other	64,263	-	-	64,263
Interest receivable	160,854	-	-	160,854
Current portion of pledges receivable	650,642	-	-	650,642
Inventory of drugs and supplies	65,907	-	-	65,907
Prepaid expenses	18,384	-	-	18,384
	<hr/>	<hr/>	<hr/>	<hr/>
Total current assets	4,836,015	115,623	-	4,951,638
Property and Equipment, Net	475,818	16,216,191	(946,819)	15,745,190
Loan Receivable	12,255,580	-	(12,255,580)	-
Pledges Receivable	3,768,311	-	-	3,768,311
Interest in Net Assets Held by Others	29,934	-	-	29,934
Deferred Financing Costs, Net	-	577,206	-	577,206
	<hr/>	<hr/>	<hr/>	<hr/>
Total assets	<u>\$ 21,365,658</u>	<u>\$ 16,909,020</u>	<u>\$ (13,202,399)</u>	<u>\$ 25,072,279</u>
Liabilities and Net Assets				
Current Liabilities				
Demand note payable, bank	\$ 75,000	\$ -	\$ -	\$ 75,000
Current portion of notes payable	295,265	-	-	295,265
Accounts Payable:				
Trade	362,499	-	-	362,499
Construction	-	650,642	-	650,642
Accrued expenses	1,166,113	-	-	1,166,113
Third-party payor settlements	751,609	-	-	751,609
Deferred revenue	129,132	-	-	129,132
	<hr/>	<hr/>	<hr/>	<hr/>
Total current liabilities	2,779,618	650,642	-	3,430,260
Notes Payable	7,583,650	15,876,000	(12,255,580)	11,204,070
	<hr/>	<hr/>	<hr/>	<hr/>
Total liabilities	10,363,268	16,526,642	(12,255,580)	14,634,330
Net Assets				
Unrestricted	4,791,149	382,378	(946,819)	4,226,708
Temporarily restricted	6,211,241	-	-	6,211,241
	<hr/>	<hr/>	<hr/>	<hr/>
Total net assets	11,002,390	382,378	(946,819)	10,437,949
	<hr/>	<hr/>	<hr/>	<hr/>
Total liabilities and net assets	<u>\$ 21,365,658</u>	<u>\$ 16,909,020</u>	<u>\$ (13,202,399)</u>	<u>\$ 25,072,279</u>

Hamilton Health Center, Inc. and Subsidiary

Consolidating Statement of Operations Schedule
Year Ended March 31, 2014

	Hamilton Health Center	Hamilton Health Center Community Services, Inc.	Eliminations	Consolidated Total
Unrestricted Revenues and Other Support				
Net patient service revenues (net of contractual allowances and discounts)	\$ 4,884,749	\$ -	\$ -	\$ 4,884,749
Provision for bad debts	(667,759)	-	-	(667,759)
Net patient service revenues less provision for bad debts	4,216,990	-	-	4,216,990
Grant revenue	4,926,179	-	-	4,926,179
Premium revenue	2,215,016	-	-	2,215,016
Pharmacy revenue	2,227,635	-	-	2,227,635
Incentive program revenue	94,340	-	-	94,340
Interest income	644,393	-	(549,774)	94,619
Contributions	55,078	-	-	55,078
Other	62,550	-	-	62,550
Rental income	46,237	712,137	(712,137)	46,237
Total unrestricted revenues and other support	<u>14,488,418</u>	<u>712,137</u>	<u>(1,261,911)</u>	<u>13,938,644</u>
Expenses				
Salaries and benefits	9,428,047	-	-	9,428,047
Medical supplies and drugs	2,175,159	-	-	2,175,159
Contracted services	1,710,660	-	-	1,710,660
Other expenses	1,051,457	11,000	-	1,062,457
Depreciation and amortization	147,600	558,449	(25,305)	680,744
Interest expense	429,688	712,183	(549,774)	592,097
Utilities	187,572	-	-	187,572
Insurance	81,375	-	-	81,375
Rental expense	784,801	-	(712,137)	72,664
Total expenses	<u>15,996,359</u>	<u>1,281,632</u>	<u>(1,287,216)</u>	<u>15,990,775</u>
Revenues (less than) in excess of expenses	(1,507,941)	(569,495)	25,305	(2,052,131)
Grant Income Used for LongTerm Purposes	314,704	-	-	314,704
Net Assets Released from Restrictions for Purchases of Property	416,798	-	-	416,798
Contributed Capital	(362,658)	362,658	-	-
Increase (decrease) in unrestricted net assets	<u>\$ (1,139,097)</u>	<u>\$ (206,837)</u>	<u>\$ 25,305</u>	<u>\$ (1,320,629)</u>

Hamilton Health Center, Inc. and SubsidiaryConsolidating Statement of Changes in Net Assets Schedule
Year Ended March 31, 2014

	<u>Hamilton Health Center</u>	<u>Hamilton Health Center Community Services, Inc.</u>	<u>Eliminations</u>	<u>Consolidated Total</u>
Unrestricted Net Assets				
Revenues (less than) in excess of expenses	\$ (1,507,941)	\$ (569,495)	\$ 25,305	\$ (2,052,131)
Grants income used for long term purposes	314,704	-	-	314,704
Contributed capital	(362,658)	362,658	-	-
Net assets released from restrictions for purchases of property	416,798	-	-	416,798
Increase (decrease) in unrestricted net assets	<u>(1,139,097)</u>	<u>(206,837)</u>	<u>25,305</u>	<u>(1,320,629)</u>
Temporarily Restricted Net Assets				
Restricted contributions	5,550,177	-	-	5,550,177
Net assets released from restriction	<u>(416,798)</u>	<u>-</u>	<u>-</u>	<u>(416,798)</u>
Increase in temporarily restricted net assets	<u>5,133,379</u>	<u>-</u>	<u>-</u>	<u>5,133,379</u>
Increase (decrease) in net assets	3,994,282	(206,837)	25,305	3,812,750
Net Assets, Beginning	<u>7,008,108</u>	<u>589,215</u>	<u>(972,124)</u>	<u>6,625,199</u>
Net Assets, Ending	<u>\$ 11,002,390</u>	<u>\$ 382,378</u>	<u>\$ (946,819)</u>	<u>\$ 10,437,949</u>

Hamilton Health Center, Inc. and Subsidiary

Consolidating Balance Sheet Schedule

March 31, 2013

	<u>Hamilton Health Center</u>	<u>Hamilton Health Center Community Services, Inc.</u>	<u>Eliminations</u>	<u>Consolidated Total</u>
Assets				
Current Assets				
Cash and cash equivalents	\$ 908,671	\$ 118,434	\$ -	\$ 1,027,105
Accounts receivable:				
Patients, net of allowance for doubtful accounts of \$3,072,743	987,753	-	-	987,753
Grants receivable	669,180	-	-	669,180
Other	93,250	-	-	93,250
Current portion of pledges receivable	147,660	-	-	147,660
Third-party payor settlements	440,976	-	-	440,976
Inventory of drugs and supplies	76,078	-	-	76,078
Prepaid expenses	92,641	-	-	92,641
Total current assets	3,416,209	118,434	-	3,534,643
Property and Equipment, Net	548,420	15,896,118	(972,124)	15,472,414
Loan Receivable	12,255,580	-	(12,255,580)	-
Pledges Receivable	915,032	-	-	915,032
Interest in Net Assets Held by Others	24,731	-	-	24,731
Deferred Financing Costs, Net	-	598,323	-	598,323
Total assets	<u>\$ 17,159,972</u>	<u>\$ 16,612,875</u>	<u>\$ (13,227,704)</u>	<u>\$ 20,545,143</u>
Liabilities and Net Assets				
Current Liabilities				
Current portion of notes payable	\$ 921,640	\$ -	\$ -	\$ 921,640
Accounts Payable:				
Trade	432,571	-	-	432,571
Construction	-	147,660	-	147,660
Accrued expenses	839,300	-	-	839,300
Deferred revenue	81,369	-	-	81,369
Total current liabilities	2,274,880	147,660	-	2,422,540
Notes Payable	7,876,984	15,876,000	(12,255,580)	11,497,404
Total liabilities	<u>10,151,864</u>	<u>16,023,660</u>	<u>(12,255,580)</u>	<u>13,919,944</u>
Net Assets				
Unrestricted	5,930,246	589,215	(972,124)	5,547,337
Temporarily restricted	1,077,862	-	-	1,077,862
Total net assets	<u>7,008,108</u>	<u>589,215</u>	<u>(972,124)</u>	<u>6,625,199</u>
Total liabilities and net assets	<u>\$ 17,159,972</u>	<u>\$ 16,612,875</u>	<u>\$ (13,227,704)</u>	<u>\$ 20,545,143</u>

Hamilton Health Center, Inc. and Subsidiary

Consolidating Statement of Operations Schedule
Year Ended March 31, 2013

	Hamilton Health Center	Hamilton Health Center Community Services, Inc.	Eliminations	Consolidated Total
Unrestricted Revenues and Other Support				
Net patient service revenues (net of contractual allowances and discounts)	\$ 5,204,440	\$ -	\$ -	\$ 5,204,440
Provision for bad debts	(470,949)	-	-	(470,949)
Net patient service revenues less provision for bad debts	4,733,491	-	-	4,733,491
Grant revenue	4,372,779	-	-	4,372,779
Premium revenue	1,899,952	-	-	1,899,952
Pharmacy revenue	1,884,237	-	-	1,884,237
Incentive program revenue	335,750	-	-	335,750
Interest income	644,895	-	(549,774)	95,121
Contributions	57,782	-	-	57,782
Other	67,136	-	-	67,136
Rental income	28,445	534,137	(534,137)	28,445
Net assets released from restriction for operations	33,171	-	-	33,171
Developers fee	393,268	-	(393,268)	-
Total unrestricted revenues and other support	14,450,906	534,137	(1,477,179)	13,507,864
Expenses				
Salaries and benefits	8,523,656	-	-	8,523,656
Medical supplies and drugs	1,768,016	-	-	1,768,016
Contracted services	1,704,730	-	-	1,704,730
Other expenses	689,403	2,485	-	691,888
Interest expense (net of capitalized interest of \$40,602)	490,614	534,137	(412,331)	612,420
Depreciation and amortization	166,399	347,403	(14,761)	499,041
Utilities	193,490	-	-	193,490
Rental expense	623,907	-	(534,137)	89,770
Insurance	78,927	-	-	78,927
Loss on refinancing	8,237	-	-	8,237
Total expenses	14,247,379	884,025	(961,229)	14,170,175
Revenues in excess of (less than) expenses	203,527	(349,888)	(515,950)	(662,311)
Grant Income Used for Long Term Purposes	3,218,400	-	-	3,218,400
Contributed Capital	(497,582)	497,582	-	-
Increase (decrease) in unrestricted net assets	<u>\$ 2,924,345</u>	<u>\$ 147,694</u>	<u>\$ (515,950)</u>	<u>\$ 2,556,089</u>

Hamilton Health Center, Inc. and SubsidiaryConsolidating Statement of Changes in Net Assets Schedule
Year Ended March 31, 2013

	Hamilton Health Center	Hamilton Health Center Community Services, Inc.	Eliminations	Consolidated Total
Unrestricted Net Assets				
Revenues in excess of (less than) expenses	\$ 203,527	\$ (349,888)	\$ (515,950)	\$ (662,311)
Grants income used for long term purposes	3,218,400	-	-	3,218,400
Contributed capital	(497,582)	497,582	-	-
	<u>2,924,345</u>	<u>147,694</u>	<u>(515,950)</u>	<u>2,556,089</u>
Temporarily Restricted Net Assets				
Restricted contributions	1,086,993	-	-	1,086,993
Net assets released from restriction	(33,171)	-	-	(33,171)
	<u>1,053,822</u>	<u>-</u>	<u>-</u>	<u>1,053,822</u>
	<u>3,978,167</u>	<u>147,694</u>	<u>(515,950)</u>	<u>3,609,911</u>
Net Assets, Beginning	<u>3,029,941</u>	<u>441,521</u>	<u>(456,174)</u>	<u>3,015,288</u>
Net Assets, Ending	<u>\$ 7,008,108</u>	<u>\$ 589,215</u>	<u>\$ (972,124)</u>	<u>\$ 6,625,199</u>

Hamilton Health Center, Inc. and Subsidiary

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

	Federal CFDA Number	Pass-through Entity Identifying Number	Grant Period	Grant Award	Total Received For Year	Accrued or (Deferred) March 31, 2013	Revenue Recognized	Expenditures	Accrued (Deferred) Revenue March 31, 2014
U.S. Department of Health and Human Services									
Direct Funding:									
Health Centers Cluster									
Community Health Centers	93.224	N/A	4/1/13-3/31/14	\$ 978,334	\$ 978,334	\$ -	\$ 978,334	\$ 978,334	\$ -
Affordable Care Act (ACA) Grants for New and Expanded Services Under the Health Center Program	93.527	N/A	4/1/13-3/31/14	707,273	707,273	-	707,273	707,273	-
Affordable Care Act (ACA) Grants for New and Expanded Services Under the Health Center Program	93.527	N/A	6/1/12-5/31/13	38,000	9,340	2,744	6,596	6,596	-
Affordable Care Act (ACA) Grants for New and Expanded Services Under the Health Center Program	93.527	N/A	6/1/13-8/31/14	47,500	9,979	-	12,021	12,021	2,042
Affordable Care Act (ACA) Grants for New and Expanded Services Under the Health Center Program	93.527	N/A	10/1/12-9/30/13	55,000	41,810	5,914	35,896	35,896	-
Affordable Care Act (ACA) Grants for New and Expanded Services Under the Health Center Program	93.527	N/A	7/1/13-9/30/14	212,412	96,129	-	133,103	133,103	36,974
Total Health Centers Cluster					1,842,865	8,658	1,873,223	1,873,223	39,016
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease (Ryan White Part C Outpatient EIS Program)	93.918 C	N/A	4/1/13-3/31/14	203,012	204,106	31,378	203,012	203,012	30,284
Healthy Start Initiative - Eliminating Racial/Ethnic Disparities	93.926	N/A	6/1/12-5/31/13	750,000	242,992	64,519	178,473	178,473	-
Healthy Start Initiative - Eliminating Racial/Ethnic Disparities	93.926	N/A	6/1/13-5/31/14	720,300	511,074	-	574,384	574,384	63,310
Passed Through Dauphin County Executive Commission on Drug and Alcohol, Inc.									
Block Grant for Prevention and Treatment of Substance Abuse (Maternal Addiction Program)	93.959	SAP 4100027130	7/1/12-6/30/13	85,500	46,892	13,846	33,046	33,046	-
Block Grant for Prevention and Treatment of Substance Abuse (Maternal Addiction Program)	93.959	319004	7/1/13-6/30/14	85,500	53,933	-	68,367	68,367	14,434
Passed Through Family Health Council of Central Pennsylvania									
Family Planning Services - Title X Grant	93.217	6FPHPA030282-34-01	7/1/12-6/30/13	N/A	24,425	5,759	18,666	18,666	-
Family Planning Services - Title X Grant	93.217	6FPHPA030282-34-01	7/1/13-6/30/14	N/A	44,147	-	73,523	73,523	29,376
Social Services Block Grant - Title XX Grant	93.667	SAP 4100049361	7/1/12-6/30/13	N/A	2,640	-	2,640	2,640	-
Social Services Block Grant - Title XX Grant	93.667	SAP 4100060420	7/1/13-6/30/14	N/A	6,354	-	10,583	10,583	4,229
Maternal and Child Health Services Block Grant to the States - Title V Grant	93.994	SAP 4100038436	7/1/12 - 6/30/13	N/A	2,808	-	2,808	2,808	-
Maternal and Child Health Services Block Grant to the States - Title V Grant	93.994	SAP 4100055598	7/1/13-6/30/14	N/A	4,212	-	7,015	7,015	2,803
Preventive Health Services - Sexually Transmitted Disease Control Grants (Chlamydia Project)	93.977	SAP 4100037892	7/1/12-6/30/13	N/A	1,698	1,285	413	413	-
Preventive Health Services - Sexually Transmitted Disease Control Grants (Chlamydia Project)	93.977	SAP 4100058062	7/1/13-6/30/14	N/A	16,846	-	16,846	16,846	-
Passed Through Pennsylvania State University									
Epidemiologic Research Studies of Acquired Immunodeficiency Syndrome (AIDS) and Human Immunodeficiency Virus (HIV) Infection in Selected Population Groups	93.943	1U62PS0000777-01	12/31/12-3/31/13	18,000	5,745	4,170	1,575	1,575	-
Passed Through Pennsylvania Department of Public Welfare									
Children's Health Insurance Program	93.767	SAP 4100056890	2/22/12-2/21/13	144,400	12,323	8,162	4,161	4,161	-
Children's Health Insurance Program	93.767	SAP 4100056890	2/22/13-2/21/14	277,000	31,123	2,160	65,027	65,027	36,064
Children's Health Insurance Program	93.767	SAP 4100056890	2/22/14-2/21/15	216,685	-	-	6,835	6,835	6,835
Passed Through Commonwealth of Pennsylvania, Department of Health									
Refugee and Entrant Assistance - State Administered Programs (Refugee Health Program)	93.566	PPA 09229	12/1/09-9/30/13	N/A	117,533	52,429	73,901	73,901	8,797
Refugee and Entrant Assistance - State Administered Programs (Refugee Health Program)	93.566	PPA 13134	10/1/13-9/30/16	N/A	-	-	102,058	102,058	102,058
Passed Through Jewish Healthcare Foundation of Pittsburgh, Inc.									

See notes to the schedule of expenditures of federal awards

Hamilton Health Center, Inc. and Subsidiary

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

	Federal CFDA Number	Pass-through Entity Identifying Number	Grant Period	Grant Award	Total Received For Year	Accrued or (Deferred) March 31, 2013	Revenue Recognized	Expenditures	Accrued (Deferred) Revenue March 31, 2014
HIV Care Formula Grants (Pennsylvania Lost-to-Care Project - Minority AIDS Initiative)	93.917	1214-3632	7/1/12-6/30/14	\$ 16,667	\$ 19,975	\$ 4,725	\$ 17,880	\$ 17,880	\$ 2,630
U.S. Department of Health and Human Services total					3,191,691	197,091	3,334,436	3,334,436	339,836
U.S. Department of Housing and Urban Development									
Passed Through Harrisburg Housing Authority Public and Indian Housing	14.850A	N/A	4/1/13-3/31/14	22,800	24,700	3,800	22,800	22,800	1,900
U.S. Department of Agriculture									
Passed Through Pennsylvania Department of Health Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	SAP 4100060483	10/1/12-9/30/13	1,292,671	827,917	132,732	695,185	695,185	-
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	SAP 4100064622	10/1/13-9/30/14	1,305,825	382,334	-	502,935	502,935	120,601
U.S. Department of Agriculture total					1,210,251	132,732	1,198,120	1,198,120	120,601
Total Federal Awards					\$ 4,426,642	\$ 333,623	\$ 4,555,356	\$ 4,555,356	\$ 462,337

See notes to the schedule of expenditures of federal awards

Hamilton Health Center and Subsidiary

Notes to the Schedule of Expenditures of Federal Awards

March 31, 2014

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of Hamilton Health Center, Inc. and subsidiary under programs of the federal government for the year ended March 31, 2014. The information in this 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 Hamilton Health Center, Inc. and subsidiary, it is not intended to and does not present the financial position, changes in net assets or cash flows of Hamilton Health Center, Inc. and subsidiary.

2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule (where applicable) represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where applicable.



formerly
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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
Hamilton Health Center, Inc.

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Hamilton Health Center, Inc. and subsidiary (collectively, the "Corporation"), which comprise the consolidated balance sheet as of March 31, 2014, and the related consolidated statements of operations, changes in net assets, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated January 23, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the 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 consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control.

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

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. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2014-001 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Corporation's consolidated 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item 2014-001.

The Corporation's Response to Findings

The Corporation's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Corporation's response was not subjected to the auditing procedures applied in the audit of the consolidated financial statements and, accordingly, we express no opinion on it.

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 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 the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Baker Tilly Viechow Krause, LLP

Williamsport, Pennsylvania
January 23, 2015

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

Board of Directors
Hamilton Health Center, Inc. and Subsidiary

Report on Compliance for Each Major Federal Program

We have audited Hamilton Health Center, Inc. and Subsidiary's (collectively, the "Corporation") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Corporation's major federal programs for the year ended March 31, 2014. The Corporation's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Corporation's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the 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 each major federal program. However, our audit does not provide a legal determination of the Corporation's compliance.

Opinion on Each Major Federal Program

In our opinion, the Corporation 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 March 31, 2014.

Report on Internal Control Over Compliance

Management of the 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 the Corporation's internal control over compliance with types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the 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 a 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2014-002, that we consider to be a significant deficiency.

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

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

Baker Tilly Viechow Krause, LLP

Williamsport, Pennsylvania
January 23, 2015

Hamilton Health Center and Subsidiary

Schedule of Findings and Questioned Costs
Year Ended March 31, 2014

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? X Yes No
- Significant deficiency(ies) identified? Yes X None reported

Noncompliance material to financial statements noted? X Yes No

Federal Awards

Internal control over major federal programs:

- Material weakness(es) identified? Yes X No
- Significant deficiency(ies) identified? X Yes None reported

Type of auditors' report issued on compliance for major federal programs: Unmodified

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

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
93.224/93.527	Health Centers Cluster (Community Health Centers and Affordable Care Act Grants for New and Expanded Services Under the Health Center Program)
10.557	Special Supplemental Nutrition Program for Women, Infants and Children

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

Auditee qualified as low-risk auditee? Yes X No

Hamilton Health Center and Subsidiary

Schedule of Findings and Questioned Costs
Year Ended March 31, 2014

Section II - Financial Statement Findings

2014-001 Compliance Issues – Material Weakness

Criteria

The Corporation receives reimbursement for services provided to patients covered under both the Medicare and Medicaid programs. As an organization participating in these programs, the Corporation is subject to compliance with provisions of federal and state laws, regulations, and the terms of provider handbooks for these programs. The Corporation is required to have a corporate compliance program to monitor adherence to the relevant requirements of these programs.

Condition

The Corporation's compliance program and internal accounting department detected two compliance issues, which led to self-disclosure with the appropriate parties. The first compliance issue was related to employment of an individual who was excluded from participation in federal health care programs, and was self disclosed to the U.S. Department of Health and Human Services Office of the Inspector General ("OIG"). The second compliance issue is related to a potential billing inaccuracy to the Pennsylvania Department of Public Welfare ("DPW"). These self-disclosures ultimately resulted in accrual of liabilities totaling \$1,076,614 for the DPW issue and \$270,000 for the OIG issue as of March 31, 2014.

Context

The compliance issue self-disclosed to the OIG has been resolved; however, the compliance issue with DPW is still pending resolution. The ultimate outcome of the billing compliance issue with DPW is uncertain, and could potentially result in a lower settlement amount than what has been recorded if DPW is in agreement that the compliance issue resulted in an error in the calculation of the Medical Assistance Prospective Payment System Rate paid to the Corporation.

Effect

The Corporation was not in compliance with the requirements of the Medicare and Medicaid programs.

Cause

The compliance issue with the OIG was due to an oversight, as the individual in question was employed in an administrative position, and not as a provider of health services. As such, the Corporation did not feel that federal health care programs were funding the salary of the individual.

The billing compliance issue with DPW was the result of an oversight in the quarterly reporting of eligible visits for purposes of determining wrap-around payments owed to the Corporation.

Hamilton Health Center and Subsidiary

Schedule of Findings and Questioned Costs
Year Ended March 31, 2014

Recommendation

We recommend that management implement procedures to ensure that the compliance function timely report potential compliance issues to the appropriate parties so they can be resolved in a timely fashion.

Views of Responsible Officials and Planned Corrective Action

The Corporation's compliance function worked effectively and timely in identifying and self-reporting both the OIG and DPW matters. The Corporation engaged legal counsel to assist in the reporting of both matters. The delay in reporting the DPW matter was the result of the Corporation's due diligence to ensure that all appropriate steps were taken to accurately address the magnitude of the billing matter and to work with legal counsel on the appropriate reports to be filed with DPW. The Corporation has reviewed the timely reporting language in the Corporate Compliance Plan and determined that it is appropriate as written. The Corporation will review and update the Corporate Compliance Plan no less frequently than annually

Questioned Costs

None.

Section III - Federal Award Findings and Questioned Costs

2014-002 Completion and Submission of Annual Single Audit – Significant Deficiency

Criteria

The Corporation is required to undergo and complete a Single Audit and file the Single Audit and related Data Collection Form within 9 months of its fiscal-year end.

Condition

The Corporation's Single Audit and reporting package was delayed for the year ended March 31, 2014 beyond the 9-month due date.

Context

The consolidated financial statements were issued 23 days after the filing deadline.

Effect

The Corporation was not in compliance with the Single Audit reporting requirement.

Cause

The Corporation was in the process of self-disclosing a billing compliance issue with DPW, which required assistance from outside legal counsel to determine the estimated amounts owed to DPW. The Corporation was also in the process of obtaining a debt covenant violation waiver from its bank. The billing compliance issue and debt covenant waiver caused a delay in issuing the audited consolidated financial statements.

Hamilton Health Center and Subsidiary

Schedule of Findings and Questioned Costs
Year Ended March 31, 2014

Recommendation

We recommend that management implement procedures to ensure that its internal books and records are closed within a timely period after year-end to ensure timely filing of the Single Audit.

Views of Responsible Officials and Planned Corrective Action

The Corporation routinely closes all internal books and records in a timely manner. The delay in finalizing the period ended March 31, 2014 was due to the amount of time required to adequately address the DPW billing matter. This was an unforeseen occurrence and it was not anticipated that it would result in such a delay of the finalization of the financial statements. However, the Corporation was focused on identifying the extent of the billing inaccuracy, the financial impact and the identification of any related matters, thus was intent on completing this analysis prior to self-reporting this matter to DPW. The Corporation will continue to focus on the timely closing of all financial books and records.

Questioned Costs

None.

Hamilton Health Center and Subsidiary

Summary Schedule of Prior Audit Findings
Year Ended March 31, 2014

Section IV - Summary Schedule of Prior Year Audit Findings

2013-001 Restatement and Contractual Allowance for Accounts Receivable

Condition

The Corporation restated its 2013 beginning net assets to record an adjustment to accounts receivable, patients. The adjustment was to record accounts receivable, patients at net realizable value by recording allowances for contractual adjustments related to third-party governmental and commercial payors. These accounts receivable were previously reflected at gross amounts rather than net realizable value.

Resolution

Procedures were implemented to ensure that accounts receivable are reflected at their net realizable value by recording allowances for contractual adjustments related to third-party governmental and commercial payors.

2013-002 Procedures of Reduced Fee Scale Program

Condition

There was an instance noted in which an incorrect determination of income was performed, and various instances in which an application was missing from the files.

Resolution

Procedures were implemented to ensure that determination of income is correctly performed and applications are maintained in the files.

2013-003 Missing Participant Signatures on Assessment Forms

Condition

There were various participant files missing signatures to support eligibility assessments made in the Women, Infants and Children program.

Resolution

Procedures were implemented to ensure the participant files contain required signatures to support eligibility assessments.