COMMUNITY HEALTH AND WELLNESS CENTER OF GREATER TORRINGTON, INC. AND AFFILIATE

CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2014 AND 2013

COMMUNITY HEALTH AND WELLNESS CENTER
OF GREATER TORRINGTON, INC. AND AFFILIATE

CONTENTS

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Independent Auditors' Report

To the Board of Directors
Community Health and Wellness Center
of Greater Torrington, Inc. and Affiliate
Torrington, Connecticut

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of the Community Health and Wellness Center of Greater Torrington, Inc. and Affiliate (the Organization), which comprise the consolidated balance sheets as of September 30, 2014 and 2013, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated 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 audits to obtain reasonable assurance about whether the consolidated 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 auditors' 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 auditors consider 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 financial position of the Community Health and Wellness Center of Greater Torrington, Inc. and Affiliate as of September 30, 2014 and 2013, and the changes in their net assets and their cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated January 12, 2015 on our consideration of the Organization's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

Blum, Shapiro & Company, P.C.

West Hartford, Connecticut
January 12, 2015

COMMUNITY HEALTH AND WELLNESS CENTER
OF GREATER TORRINGTON, INC. AND AFFILIATE
CONSOLIDATED BALANCE SHEETS
SEPTEMBER 30, 2014 AND 2013

	2014	2013
ASSETS		
Current Assets		
Cash and cash equivalents	$ 3,652,046	$ 4,718,632
Patient fees receivable, net	377,053	489,880
Grants receivable	209,611	83,982
Prepaid expenses and other current assets	30,311	32,782
Total current assets	4,269,021	5,325,276
Property and Equipment		
Land	980,342	980,342
Buildings and improvements	2,135,169	2,135,169
Furniture and equipment	416,496	408,532
	3,532,007	3,524,043
Less accumulated depreciation	609,144	482,909
	2,922,863	3,041,134
Construction in process	6,885,958	978,678
Net property and equipment	9,808,821	4,019,812
Other Assets		
Restricted cash	1,675,380	4,923,221
Note receivable	7,304,040	7,304,040
Deferred financing costs	362,583	401,914
Total other assets	9,342,003	12,629,175
Total Assets	$ 23,419,845	$ 21,974,263
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable and accrued expenses	$ 1,445,313	$ 681,909
Line of credit	-	100,000
Current portion of notes payable	3,372,412	14,523
Total current liabilities	4,817,725	796,432
Long-Term Liabilities		
Notes payable, less current portion	11,976,000	17,767,480
Total liabilities	16,793,725	18,563,912
Net Assets		
Unrestricted	6,226,120	2,910,351
Temporarily restricted	400,000	500,000
Total net assets	6,626,120	3,410,351
Total Liabilities and Net Assets	$ 23,419,845	$ 21,974,263

The accompanying notes are an integral part of the consolidated financial statements

COMMUNITY HEALTH AND WELLNESS CENTER
OF GREATER TORRINGTON, INC. AND AFFILIATE
CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED SEPTEMBER 30, 2014 AND 2013

	2014	2013
Changes in Unrestricted Net Assets		
Support and revenue:		
Patient service revenue (net of contractual allowances and discounts)	$ 3,890,490	$ 3,406,350
Less provision for bad debts	175,026	218,394
Net patient service revenue less provision for bad debts	3,715,464	3,187,956
State and federal grants	4,585,592	1,734,880
Federal incentives and supplemental payments	401,764	51,785
Pharmacy and other	256,092	39,822
Contributions	18,215	9,498
Net assets released from restrictions	100,000	100,000
Total unrestricted support and revenue	9,077,127	5,123,941
Expenses:		
Salaries	3,481,802	2,977,840
Payroll taxes and benefits	706,294	671,682
Program expense	325,167	187,267
Professional fees	259,250	235,527
Primary care expense	190,690	166,636
Interest	185,411	56,203
Depreciation and amortization	178,165	164,718
Asset management fee	58,500	-
Rentals	57,292	36,451
Office supplies	55,365	45,249
Repairs and maintenance	54,252	58,074
Dues and subscriptions	34,712	25,348
Small equipment	32,010	26,310
Insurance	30,927	28,349
Telephone	30,133	19,041
Miscellaneous	30,172	23,319
Utilities	26,448	23,110
Advertising	24,768	16,186
Total expenses	5,761,358	4,761,310
Increase in unrestricted net assets	3,315,769	362,631
Changes in Temporarily Restricted Net Assets		
Net assets released from restrictions	(100,000)	(100,000)
Increase in Net Assets	3,215,769	262,631
Net Assets - Beginning of Year	3,410,351	3,147,720
Net Assets - End of Year	$ 6,626,120	$ 3,410,351

The accompanying notes are an integral part of the consolidated financial statements

COMMUNITY HEALTH AND WELLNESS CENTER
OF GREATER TORRINGTON, INC. AND AFFILIATE
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2014 AND 2013

	2014	2013
Cash Flows from Operating Activities		
Increase in net assets	$ 3,215,769	$ 262,631
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Grant support restricted for building construction	(3,243,623)	(406,355)
Depreciation and amortization expense	178,165	164,718
(Increase) decrease in operating assets:		
Patient fees receivable, net	112,827	(75,853)
Grants receivable	(125,629)	18,508
Prepaid expenses and other current assets	2,471	(31,352)
Increase (decrease) in operating liabilities:		
Accounts payable	763,404	443,117
Deferred revenue	-	(3,370)
Net cash provided by operating activities	903,384	372,044
Cash Flows from Investing Activities		
Property and equipment expenditures	(5,917,929)	(873,961)
Net cash used in investing activities	(5,917,929)	(873,961)
Cash Flows from Financing Activities		
Grant support restricted for building construction	3,243,623	406,355
Decrease (increase) in restricted cash	3,250,527	(4,923,221)
Payment of deferred financing costs	(12,600)	(427,429)
Repayment of notes payable	(2,433,591)	(162,346)
Proceeds from notes payable	-	10,079,960
Payments on line of credit, net	(100,000)	(150,000)
Net cash provided by financing activities	3,947,959	4,823,319
Net Increase (Decrease) in Cash and Cash Equivalents	(1,066,586)	4,321,402
Cash and Cash Equivalents - Beginning of Year	4,718,632	397,230
Cash and Cash Equivalents - End of Year	$ 3,652,046	$ 4,718,632
Cash Paid During the Year for Interest	$ 363,235	$ 56,203

The accompanying notes are an integral part of the consolidated financial statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations - Community Health and Wellness Center of Greater Torrington, Inc. (the Center) was organized as a Connecticut nonprofit, nonstock corporation to provide comprehensive primary and preventative health care for the uninsured and underinsured population in northwestern Connecticut. The Center provides care regardless of the individual's ability to pay for these services. The Center's primary sources of revenue consist of grants and patient fees.

Community Health and Wellness Holdings, Inc. (Holdings) was formed to serve as a supporting organization for the exclusive benefit of the Center and was required in order to participate in the New Markets Tax Credit Program (Note 2). Holdings owns the facilities in which the Center operates and leases them to the Center.

Basis of Accounting and Presentation - The financial statements have been prepared on a consolidated basis to include the Center and Holdings (together referred to as the Organization). All material interorganization balances and transactions have been eliminated from the consolidated financial statements. The consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Accordingly, the accounts of the Organization are reported in the following net asset categories:

> **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.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures in the consolidated financial statements. Actual results could differ from those estimates. Significant estimates include the allowance for doubtful patient fees receivable.

Cash Equivalents - Cash equivalents are defined as highly liquid investments with original maturities of 90 days or less.

Property and Equipment - Property and equipment acquisitions and improvements thereon that exceed $5,000 are capitalized at cost. Donated property and equipment exceeding the capitalization threshold are capitalized at the fair market value on the date of donation. Depreciation is provided using the straight-line method over the estimated useful lives of the related assets. Expenditures that substantially increase the useful lives of the related assets are capitalized. Maintenance, repairs and minor renewals are charged to operations as incurred.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred Financing Costs - The costs of obtaining financing are capitalized and amortized on a straight-line basis over a seven-year period, as loan forgiveness is expected to occur after seven years. Amortization expense totaled $51,931 for the year ended September 30, 2014. Amortization is expected to be $52,830 for each of the next five years.

Patient Service Revenue - Patient service revenue is reported at the estimated net realizable amount from patients, third-party payors and others for services rendered. Revenue received under cost-reimbursement agreements is subject to audit and retroactive adjustment by third-party payors. Provisions for estimated adjustments are reflected in patient service revenue. Differences between estimated adjustments and final settlements are recognized in the year of settlement. Self-pay patients are charged and revenue is recognized using a sliding fee schedule based on income.

Federal incentive and supplemental payments include incentive revenue for the Center implementing electronic medical records for the years ended September 30, 2014 and 2013, and a supplemental Medicaid payment from the State of Connecticut for the year ended September 30, 2014.

Charity Care - The Center provides care to all patients, regardless of their ability to pay or the availability of third-party reimbursement. The cost of charity care is estimated by applying the ratio of healthcare service costs (determined for functional expense disclosure purposes) to patient revenue and applying that ratio to forgone patient revenue. The cost of services provided under the Center's charity care policy totaled $325,000 and $388,000 for the years ended September 30, 2014 and 2013, respectively.

Grants and Contracts - With the exception of certain state grants for property acquisition or renovation, governmental grants and contracts are generally considered to be exchange transactions rather than contributions. Revenue from cost-reimbursement grants and contracts is recognized to the extent of costs incurred. Revenue from performance-based grants and contracts is recognized to the extent of performance achieved. Grant and contract receipts in excess of revenue recognized are presented as deferred revenue.

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. The Center reports nongovernmental contributions and grants of cash and other assets as temporarily restricted support if they are received with donor stipulations that limit their use. The Center also reports governmental grants for property acquisition or renovation as temporarily restricted support. 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 consolidated statements of operations and changes in net assets as net assets released from restrictions. Contributions received whose restrictions are met in the same period are presented with unrestricted net assets. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Center reports gifts of property and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions on how the assets are to be used and gifts of cash or other assets that must be used to acquire property and equipment are reported as restricted support. Without donor stipulations about how long those assets must be maintained, the Center reports expirations of donor restrictions when the assets are placed in service.

Expenses by Function - The costs of providing various programs and activities have been summarized on a functional basis in Note 11. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Income Taxes - The Internal Revenue Service (IRS) has determined that the Center and Holdings are exempt from federal income taxes on exempt function income as public charities under Section 501(c)(3) of the Internal Revenue Code. Consequently, no provision for income taxes has been made in the accompanying consolidated financial statements. The Center's informational returns for the years ended September 30, 2011 through 2014 are subject to examination by the IRS and the State of Connecticut. Holdings' informational returns for the years ended September 30, 2012 through 2014 are subject to examination by the IRS.

Subsequent Events - In preparing these consolidated financial statements, management has evaluated subsequent events through January 12, 2015, which represents the date the consolidated financial statements were available to be issued.

NOTE 2 - NEW MARKETS TAX CREDIT TRANSACTION

The Organization entered into a New Markets Tax Credit Program (NMTC Program) transaction on September 17, 2013 with the Massachusetts Housing Investment Corporation (MHIC) and its related entities. The purpose of participating in the NMTC Program was to obtain low-cost financing for construction of an $8.6M facility for administration and additional patient services.

The Center serves as the leveraged lender and Holdings serves as the Qualified Active Low-Income Community Business in the transaction. The Center's existing facility was contributed to Holdings, and Holdings is leasing it back to the Center under a long-term lease, which is eliminated in consolidation. The Center entered into a note receivable with Torrington Wellness Center Investment Fund (TWCIF), an unrelated MHIC entity, which is discussed in Note 5.

The loan to TWCIF plus investor funds were funneled through another MHIC entity, MHIC NE CDE II (CDE II), which entered into notes payable with Holdings, which are discussed in Note 7.

NOTE 2 - NEW MARKETS TAX CREDIT TRANSACTION (Continued)

The notes payable to CDE II provide for principal amortization beginning in 2021, which coincides with the seven-year investment period requirement under the NMTC Program. Assuming all NMTC Program requirements are met during the seven-year period, these loans are eligible for forgiveness by CDE II in 2021, which would also result in forgiveness of the note receivable from TWCIF.

In addition to the loans provided by CDE II, the Organization also entered into a bridge loan to be repaid by a federal capital grant and an additional corporate loan in order to fund the new facility.

NOTE 3 - CONCENTRATIONS

Concentrations of Credit Risk - The Center's financial instruments that are exposed to concentrations of credit risk are cash and patient fees receivable.

Cash - The Center's deposits in financial institutions may, at times, exceed federal depository insurance limits. Management believes that the Center's deposits are not subject to significant credit risk.

Patient Fees Receivable - The Center grants credit without collateral to its patients, most of whom are local residents and some of whom are insured under third-party payor agreements. The mix of receivables from patients and third-party payors as of September 30, 2014 and 2013, was as follows:

	2014	2013
Patients	9%	41%
Medicaid	67	38
Medicare	7	12
Other third-party payors	17	9
Total Patient Fees Receivable	100%	100%

Interest is not accrued on patient receivables. The Center provides an allowance for doubtful accounts based on the application of certain percentages to each payor type based on historical experience. The allowance for doubtful accounts is $225,393 and $208,937 as of September 30, 2014 and 2013, respectively.

Revenue Concentrations - Approximately one third of the Center's total revenue consists of grants from the federal government and the State of Connecticut. As with all government funding, these grants are subject to reduction or termination in future years. Any reduction in federal or state funding could have an adverse impact on the Center's operations.

In addition, 77% and 84% of the Center's patient revenue for the years ended September 30, 2014 and 2013, respectively, consists of federal Medicare and Medicaid reimbursements.

NOTE 4 - RESTRICTED CASH

In connection with certain notes payable, lenders have placed loan proceeds into accounts that can be drawn on only for the approved loan purpose, which is primarily construction of a new facility.

NOTE 5 - NOTE RECEIVABLE

As discussed in Note 2, in connection with the NMTC Program, the Center entered into a $7,304,040 note receivable with an unrelated party. The note bears interest at 1% and requires interest-only payments through September 30, 2020, at which time the entire principal is due. Monthly principal and interest payments of $34,237 are due beginning January 10, 2021 through July 1, 2040.

NOTE 6 - HEALTHCARE FACILITY RESTRICTIONS

The Center previously received a state bonding grant to fund construction of its facility. The State maintains a lien on the facility, which is released at a rate of 10% per year so long as the property is being used for providing healthcare services. The bonding grant has been recognized as a temporarily restricted contribution, and is being released at 10% per year coincident with the lien period.

Approximately 64% of the costs of the new facility are being funded by a federal grant, which gives the federal government an interest in the property.

NOTE 7 - NOTES PAYABLE

Notes payable as of September 30, 2014 and 2013, consist of the following:

	2014	2013
Holdings note payable to CDE II, bearing interest at .698% with interest only payable through December 1, 2020. Monthly principal and interest payments of $23,938 begin January 2021 through December 2048, secured by an assignment of leases and equipment. See Note 2.	$ 7,304,040	$ 7,304,040
Holdings note payable to CDE II. The note bears interest at .698% with interest only payable through December 1, 2020. Monthly principal and interest payments of $10,396 begin January 2021 through December 2048, secured by an assignment of leases and equipment. See Note 2.	3,171,960	3,171,960

NOTE 7 - NOTES PAYABLE (Continued)

Center bridge note payable to bank. Interest at the Federal Home Loan Bank of Boston rate plus 300 basis points is payable monthly, with the entire principal amount due on September 17, 2015, secured by sums advanced under the federal capital grant and an interest in the note receivable, which is junior to the note below. See Note 2.	3,372,412	5,408,000
Center note payable to corporation. Interest at 6.03% is payable monthly, with the entire principal balance due September 30, 2021, secured by a senior security interest in the note receivable (see Notes 2 and 5).	1,500,000	1,500,000
Center note payable to bank, in monthly installments of $3,500 (including interest at 6.94% through May 2029), secured by real estate. The note was paid in full in October 2013.	-	398,003
	15,348,412	17,782,003
Less current portion	3,372,412	14,523
Noncurrent Portion	$ 11,976,000	$ 17,767,480

Aggregate principal maturities of notes payable in subsequent years are as follows:

<u>**Year Ending September 30**</u>

2015	$ 3,372,412
2016	-
2017	-
2018	-
2019	-
Thereafter	11,976,000
	$ 15,348,412

Interest incurred for the year ended September 30, 2014 totaled $363,235, of which $177,824 was capitalized into the facility and $185,411 expensed. Interest expense for the year ended September 30, 2013 totaled $56,203.

NOTE 8 - LINE OF CREDIT

The Center has an available commercial line of credit of $250,000, which bears interest at the bank's prime rate plus .5% (3.75% as of September 30, 2014). This line of credit is secured by accounts receivable. The balance on the line was $-0- and $100,000 as of September 30, 2014 and 2013, respectively. The line of credit was used to provide part of the interim financing for the purchase of land for the new facility in 2012.

NOTE 9 - TEMPORARILY RESTRICTED NET ASSETS

For the years ended September 30, 2014 and 2013, temporarily restricted net assets were released from restrictions by meeting the following purpose or time restrictions:

	2014	2013
Expiration of lien period on funded renovations (Note 6)	$ 100,000	$ 100,000
Total Temporarily Restricted Net Assets Released	$ 100,000	$ 100,000

Temporarily restricted net assets of $400,000 and $500,000 as of September 30, 2014 and 2013, respectively, represent the unexpired lien period on funded renovations discussed in Note 6.

NOTE 10 - PATIENT SERVICE REVENUE

Patient revenue and the provision for bad debts expense by payor is as follows as of September 30, 2014 and 2013:

	Patients	Medicaid	Medicare	Other	Total
2014					
Patient service revenue, net of contractual allowances and other discounts	$ 293,603	$ 2,728,831	$ 474,360	$ 393,696	$ 3,890,490
Provision for bad debts	90,652	54,666	10,089	19,619	175,026
Net Patient Service Revenue Less Provision for Bad Debts	$ 202,951	$ 2,674,165	$ 464,271	$ 374,077	$ 3,715,464

NOTE 10 - PATIENT SERVICE REVENUE (Continued)

	Patients	Medicaid	Medicare	Other	Total
2013					
Patient service revenue, net of contractual allowances and other discounts	$ 386,901	$ 2,290,037	$ 415,393	$ 314,019	$ 3,406,350
Provision for bad debts	179,521	18,418	4,620	15,835	218,394
Net Patient Service Revenue Less Provision for Bad Debts	$ 207,380	$ 2,271,619	$ 410,773	$ 298,184	$ 3,187,956

NOTE 11 - EXPENSES BY FUNCTION

Expenses by function for the years ended September 30, 2014 and 2013, are as follows:

	2014	2013
Healthcare services	$ 4,486,453	$ 3,829,853
Management and general	1,274,905	931,457
Total Expenses	$ 5,761,358	$ 4,761,310

NOTE 12 - MALPRACTICE INSURANCE

As a federally qualified health center, the Center maintains malpractice insurance under the Federal Tort Claims Act (FTCA). This coverage is applicable to the Center and its officers, board members, employees and contractors who are physicians, other licensees or certified healthcare practitioners. The FTCA coverage is on a claims-made basis policy without a monetary cap. As of September 30, 2014, no known malpractice claims have been asserted against the Center.

NOTE 13 - EMPLOYEE BENEFIT PLAN

The Center maintains a defined contribution 403(b) retirement plan for full-time employees, as defined. Employee contributions under the plan are determined by the eligible participating employees, subject to certain IRS limitations. The Center contributes 4% to 7% of compensation, based on longevity, for employees with at least one year of service. The Center's contributions for the years ended September 30, 2014 and 2013, totaled $102,928 and $95,495, respectively.

NOTE 14 - MEDICARE AND MEDICAID

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

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

NOTE 15 - GOVERNMENT GRANTS

The Center participates in federal- and state-assisted grant programs. These grants are subject to audits by grantor agencies, which could result in disallowed costs due back to the grantor. The Center is not aware of any liabilities to grantors.

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Independent Auditors' Report on Supplementary Information

To the Board of Directors
Community Health and Wellness Center
of Greater Torrington, Inc. and Affiliate
Torrington, Connecticut

We have audited the financial statements of Community Health and Wellness Center of Greater Torrington, Inc. and Affiliate as of and for the years ended September 30, 2014 and 2013, and our report thereon dated January 12, 2015, which expressed an unmodified opinion those financial statements, appears on pages 1 and 2. Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The consolidating balance sheet as of September 30, 2014 and the related consolidating statements of operations and changes in net assets and cash flows for the year ended September 30, 2014 are presented for the purposes of additional analysis and are 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 audits 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.

Blum, Shapiro & Company, P.C.

West Hartford, Connecticut
January 12, 2015

COMMUNITY HEALTH AND WELLNESS CENTER
OF GREATER TORRINGTON, INC. AND AFFILIATE
CONSOLIDATING BALANCE SHEET
SEPTEMBER 30, 2014

	Community Health and Wellness Center of Greater Torrington, Inc.	Community Health and Wellness Holdings, Inc.	Eliminations	Total
ASSETS				
Current Assets				
Cash and cash equivalents	$ 1,713,028	$ 1,939,018	$ -	$ 3,652,046
Patient fees receivable, net	377,053	-	-	377,053
Grants receivable	209,611	-	-	209,611
Prepaid expenses and other current assets	30,311	-	-	30,311
Total current assets	2,330,003	1,939,018	-	4,269,021
Property and Equipment				
Land	350,000	630,342	-	980,342
Buildings and improvements	-	2,135,169	-	2,135,169
Furniture and equipment	416,496	-	-	416,496
	766,496	2,765,511	-	3,532,007
Less accumulated depreciation	266,320	342,824	-	609,144
	500,176	2,422,687	-	2,922,863
Construction in process	-	6,885,958	-	6,885,958
Net property and equipment	500,176	9,308,645	-	9,808,821
Other Assets				
Restricted cash	45,225	1,630,155	-	1,675,380
Due from Holdings	2,387,094	-	(2,387,094)	-
Deferred lease costs	-	1,183,993	(1,183,993)	-
Note receivable	7,304,040	-	-	7,304,040
Deferred financing costs	80,822	281,761	-	362,583
Total other assets	9,817,181	3,095,909	(3,571,087)	9,342,003
Total Assets	$ 12,647,360	$ 14,343,572	$ (3,571,087)	$ 23,419,845
LIABILITIES AND NET ASSETS				
Current Liabilities				
Accounts payable and accrued expenses	$ 505,325	$ 939,988	$ -	$ 1,445,313
Current portion of notes payable	3,372,412	-	-	3,372,412
Total current liabilities	3,877,737	939,988	-	4,817,725
Long-Term Liabilities				
Due to Center	-	2,387,094	(2,387,094)	-
Deferred lease revenue	1,183,993	-	(1,183,993)	-
Notes payable, less current portion	1,500,000	10,476,000	-	11,976,000
Total liabilities	6,561,730	13,803,082	(3,571,087)	16,793,725
Net Assets				
Unrestricted	5,685,630	540,490	-	6,226,120
Temporarily restricted	400,000	-	-	400,000
Total net assets	6,085,630	540,490	-	6,626,120
Total Liabilities and Net Assets	$ 12,647,360	$ 14,343,572	$ (3,571,087)	$ 23,419,845

COMMUNITY HEALTH AND WELLNESS CENTER
OF GREATER TORRINGTON, INC. AND AFFILIATE
CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED SEPTEMBER 30, 2014

	Community Health and Wellness Center of Greater Torrington, Inc.	Community Health and Wellness Holdings, Inc.	Eliminations	Total
Changes in Unrestricted Net Assets				
Support and revenue:				
Patient service revenue (net of contractual allowances and discounts)	$ 3,890,490	$ -	$ -	$ 3,890,490
Less provision for bad debts	175,026	-	-	175,026
Net patient service revenue less provision for bad debts	3,715,464	-	-	3,715,464
State and federal grants	4,585,592	-	-	4,585,592
Federal incentives and supplemental payments	401,764	-	-	401,764
Pharmacy and other	189,206	78,975	(12,089)	256,092
Contributions	18,215	-	-	18,215
Net assets released from restrictions	100,000	-	-	100,000
Total unrestricted support and revenue	9,010,241	78,975	(12,089)	9,077,127
Expenses:				
Salaries	3,481,802	-	-	3,481,802
Payroll taxes and benefits	706,294	-	-	706,294
Program expense	325,167	-	-	325,167
Professional fees	259,250	-	-	259,250
Primary care expense	190,690	-	-	190,690
Interest	99,911	85,500	-	185,411
Depreciation and amortization	65,830	112,335	-	178,165
Asset management fee	-	58,500	-	58,500
Rentals	57,292	-	-	57,292
Office supplies	55,365	-	-	55,365
Repairs and maintenance	54,252	-	-	54,252
Dues and subscriptions	34,712	-	-	34,712
Small equipment	32,010	-	-	32,010
Insurance	30,927	-	-	30,927
Telephone	30,133	-	-	30,133
Miscellaneous	23,738	18,523	(12,089)	30,172
Utilities	26,448	-	-	26,448
Advertising	24,768	-	-	24,768
Total expenses	5,498,589	274,858	(12,089)	5,761,358
Increase (decrease) in unrestricted net assets	3,511,652	(195,883)	-	3,315,769
Changes in Temporarily Restricted Net Assets				
Net assets released from restrictions	(100,000)	-	-	(100,000)
Increase (Decrease) in Net Assets	3,411,652	(195,883)	-	3,215,769
Net Assets - Beginning of Year	2,673,978	736,373	-	3,410,351
Net Assets - End of Year	$ 6,085,630	$ 540,490	$ -	$ 6,626,120

COMMUNITY HEALTH AND WELLNESS CENTER
OF GREATER TORRINGTON, INC. AND AFFILIATE
CONSOLIDATING STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED SEPTEMBER 30, 2014

	Community Health and Wellness Center of Greater Torrington, Inc.	Community Health and Wellness Holdings, Inc.	Eliminations	Total
Cash Flows from Operating Activities				
Increase (decrease) in net assets	$ 3,411,652	$ (195,883)	$ -	$ 3,215,769
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:				
Grant support restricted for building construction	(3,243,623)	-	-	(3,243,623)
Depreciation and amortization expense	65,830	112,335	-	178,165
(Increase) decrease in operating assets:				
Patient fees receivable, net	112,827	-	-	112,827
Grants receivable	(125,629)	-	-	(125,629)
Prepaid expenses and other current assets	2,471	-	-	2,471
Due from Holdings	(128,402)	-	128,402	-
Increase in operating liabilities:				
Accounts payable	179,519	583,885	-	763,404
Due to Center	-	128,402	(128,402)	-
Net cash provided by operating activities	274,645	628,739	-	903,384
Cash Flows from Investing Activities				
Property and equipment expenditures	(10,649)	(5,907,280)	-	(5,917,929)
Net cash used in investing activities	(10,649)	(5,907,280)	-	(5,917,929)
Cash Flows from Financing Activities				
Grant support restricted for building construction	3,243,623	-	-	3,243,623
Decrease in restricted cash	2,686	3,247,841	-	3,250,527
Payment of deferred financing costs	(12,600)	-	-	(12,600)
Repayment of notes payable	(2,433,591)	-	-	(2,433,591)
Payments on line of credit, net	(100,000)	-	-	(100,000)
Net cash provided by financing activities	700,118	3,247,841	-	3,947,959
Net Increase (Decrease) in Cash and Cash Equivalents	964,114	(2,030,700)	-	(1,066,586)
Cash and Cash Equivalents - Beginning of Year	748,914	3,969,718	3,969,718	4,718,632
Cash and Cash Equivalents - End of Year	$ 1,713,028	$ 1,939,018	$ 3,969,718	$ 3,652,046

COMMUNITY HEALTH AND WELLNESS CENTER OF GREATER TORRINGTON, INC. AND AFFILIATE

FEDERAL SINGLE AUDIT REPORT

SEPTEMBER 30, 2014

COMMUNITY HEALTH AND WELLNESS CENTER
OF GREATER TORRINGTON, INC. AND AFFILIATE

FEDERAL SINGLE AUDIT REPORT

SEPTEMBER 30, 2014

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

To the Board of Directors
Community Health and Wellness Center
of Greater Torrington, Inc. and Affiliate
Torrington, Connecticut

Report on Compliance for the Major Federal Program

We have audited Community Health and Wellness Center of Greater Torrington, Inc. and Affiliate's (the Center) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on the Organization's major federal program for the year ended September 30, 2014. The Organization's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

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

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

Opinion on the Major Federal Program

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

Report on Internal Control over Compliance

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

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

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

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

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

We have audited the consolidated financial statements of Community Health and Wellness Center of Greater Torrington, Inc. and Affiliate as of and for the year ended September 30, 2014 and have issued our report thereon dated January 12, 2015, which contained an unmodified opinion on those consolidated financial statements. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the 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 schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic consolidated financial statements as a whole.

Blum, Shapiro & Company, P.C.

West Hartford, Connecticut
January 12, 2015

COMMUNITY HEALTH AND WELLNESS CENTER OF GREATER TORRINGTON, INC. AND AFFILIATE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2014

Grantor/Pass-Through Entity/ Program Title	Grant Period End	Grant Number	CFDA Number	Expenditures
Department of Agriculture				
Passed Through the Community Health Center Association of Connecticut, Inc.:				
Supplemental Nutrition Assistance Program	9/30/15	-	10.551	$ 55,340
Department of Health and Human Services				
Direct:				
Health Center Cluster:				
Consolidated Health Center	2/28/14	H80CS12843	93.224	417,149
Consolidated Health Center	2/28/15	H80CS12843	93.224	482,653
				899,802
Ryan White C	3/31/14	H76HA01697	93.918	104,143
Ryan White C	3/31/15	H76HA01697	93.918	86,603
				190,746
Capital Development	4/30/15	C8ACS23647	93.526	3,243,623
Passed Through the Community Health Center Association of Connecticut, Inc.:				
Colorectal Cancer Screening Services Program	6/30/14	2010-0193 (YR 5)	93.282	10,799
Colorectal Cancer Screening Services Program	6/30/15	2010-0193 (YR 6)	93.282	6,800
				17,599
Ryan White D	7/31/13	-	93.153	25,115
Ryan White D	7/31/14	-	93.153	4,151
				29,266
Total Department of Health and Human Services				4,381,036
Total Federal Awards Expended				$ 4,436,376

The accompanying notes are an integral part of this schedule

COMMUNITY HEALTH AND WELLNESS CENTER
OF GREATER TORRINGTON, INC. AND AFFILIATE
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2014

NOTE 1 - BASIS OF PRESENTATION

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. For cost-reimbursement awards, such expenditures are recognized following the cost principles contained in OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. For performance-based awards, expenditures reported represent amounts earned.

NOTE 3 - NONCASH ASSISTANCE

The Center received and used vaccines with a fair value of $20,236 under federal CFDA #93.268, passed through the Connecticut Department of Public Health (DPH). In accordance with the *OMB Circular A-133 Compliance Supplement*, such assistance is not considered to be a federal award for federal single audit purposes, and, accordingly, it has not been included in the schedule of expenditures of federal awards. However, the DPH requires disclosure of this assistance.

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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*

To the Board of Directors
Community Health and Wellness Center
of Greater Torrington, Inc. and Affiliate
Torrington, Connecticut

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 Community Health and Wellness Center of Greater Torrington, Inc. and Affiliate (the Center), which comprise the consolidated balance sheet as of September 30, 2014 and the related consolidated statements of operations and 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 12, 2015.

Internal Control over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or 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 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 and, therefore, material weaknesses or significant deficiencies may exist that were not identified. 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 did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2014-001, 2014-002 and 2014-003, that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Center'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 consolidated 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*.

Center's Response to Findings

The Center's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Center's response was not subjected to the auditing procedures applied in the audit of the 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 result of that testing, and not to provide an opinion on the effectiveness of the Center'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 Center's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Blum, Shapiro & Company, P.C.

West Hartford, Connecticut
January 12, 2015

COMMUNITY HEALTH AND WELLNESS CENTER
OF GREATER TORRINGTON, INC. AND AFFILIATE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2014

I. SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

• Material weakness(es) identified?	____	yes	X	no
• Significant deficiency(ies) identified?	X	yes	____	none reported
Noncompliance material to financial statements noted?	____	yes	X	no

Federal Awards

Internal control over major programs:

• Material weakness(es) identified?	____	yes	X	no
• Significant deficiency(ies) identified?	____	yes	X	none reported

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

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

Identification of major program:

CFDA #	Name of Federal Program or Cluster
93.526	Capital Development

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

Auditee qualified as low-risk auditee?	X	yes	____	no

II. FINANCIAL STATEMENT FINDINGS

2014-001	**Accounting for Depreciation**
Criteria	Accounting principles generally accepted in the United States of America require that property and equipment be depreciated over their estimated service lives.
Condition	Depreciation was calculated correctly on the Center's detailed property schedule, but a portion of the expense was not reflected in the general ledger.
Context	Total depreciation and amortization expense was $178,165, of which $51,333 was not recorded in the general ledger.
Effect	Depreciation expense and accumulated depreciation were understated by $51,333.
Cause	Clerical error.
Recommendation	We recommend that the closing process include a reconciliation of the detailed property and equipment schedule to the general ledger.
Management Response and Planned Corrective Action	Management has recorded the additional depreciation and has added the recommended reconciliation to the closing process.

2014-002 **Accounting for Construction Period Interest**

Criteria	Accounting principles generally accepted in the United States of America require that interest on loans used to finance construction be capitalized as part of the building cost.
Condition	Interest expense on loans used to finance construction was expensed.
Context	Interest expensed that should have been capitalized totaled $174,824. Construction in process, excluding the $174, 824 of interest, totaled $6,711,134.
Effect	Interest expense was overstated and construction in process was understated by $174,824.
Cause	Management was not aware of the requirement to capitalize construction period interest.
Recommendation	We recommend that management capitalize construction period interest going forward.
Management Response and Planned Corrective Action	Management has recorded the adjustment and is now aware of the requirement. The Center's new facility was completed shortly after year end and loan-financed construction is not expected to occur again.

2014-003	**Reconciliation of Patient Revenue and Receivables**
Criteria	An important control is to reconcile patient fee revenue and receivable control accounts in the general ledger to the subsidiary records.
Condition	Patient fee revenue and receivables are not reconciled on a regular basis with reports produced by the patient billing software, which is not integrated with the general ledger software.
Context	Patient billings and receipts are entered by patient in the patient billing software and in total in the general ledger.
Effect	The effect is that patient fee revenue and receivable balances may not be correct. In addition, estimates are required to determine receivables by payer source since the patient billing software reports are not utilized.
Cause	Accounting personnel recently changed and the new personnel are not familiar with generating reports from the billing software.
Recommendation	We recommend that the new accounting personnel be trained in running reports from the patient billing software and that reconciliation of the general ledger to the billing software be added to the monthly closing process.
Management Response and Planned Corrective Action	Management concurs with the recommendation and will implement it.

III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.