

COMMUNITY HEALTH NET

**Financial and Compliance Report
June 30, 2019**



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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Community Health Net
Erie, Pennsylvania

Report on the Financial Statements

We have audited the accompanying financial statements of Community Health Net (Organization), which comprise the statements of financial position as of June 30, 2019 and 2018, and the related statements of operations and 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 financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Community Health Net as of June 30, 2019 and 2018, and the results of its operations and changes in its 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

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information listed in the table of contents is presented for purposes of additional analyses and is not a required part of the financial statements. The schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), is presented for purposes of additional analyses and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 23, 2019, on our consideration of Community Health Net'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 Community Health Net's internal control over financial reporting and compliance.

Arnett Carbis Toothman LLP

Pittsburgh, Pennsylvania
October 23, 2019

COMMUNITY HEALTH NET**STATEMENTS OF FINANCIAL POSITION**

June 30, 2019 and 2018

ASSETS	2019	2018
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,162,502	\$ 1,101,848
Patient accounts receivable, net of allowance for doubtful accounts 2019 \$132,188; 2018 \$181,359	468,285	535,551
Other accounts receivable	283,574	227,694
Pharmacy inventory	154,474	136,389
Prepaid expenses and other current assets	77,823	41,444
Total current assets	2,146,658	2,042,926
PROPERTY AND EQUIPMENT		
Land	174,383	174,383
Furniture and equipment	2,950,438	2,884,540
Buildings and improvements	2,057,168	2,049,594
Leasehold improvements	402,592	402,592
	5,584,581	5,511,109
Less accumulated depreciation	4,043,273	3,833,465
Net property and equipment	1,541,308	1,677,644
Total assets	\$ 3,687,966	\$ 3,720,570

See Notes to Financial Statements

LIABILITIES AND NET ASSETS	2019	2018
CURRENT LIABILITIES		
Current maturities of long-term debt	\$ 37,206	\$ 35,556
Current maturities of capital lease	2,400	2,400
Accounts payable	269,835	152,131
Accrued payroll and payroll liabilities	491,712	519,524
Unearned grant revenue	-	65,791
	<hr/>	<hr/>
Total current liabilities	801,153	775,402
LONG-TERM DEBT, less current maturities	189,355	226,735
CAPITAL LEASE, less current maturities	2,880	5,350
	<hr/>	<hr/>
Total liabilities	993,388	1,007,487
NET ASSETS		
Without donor restrictions	2,662,903	2,713,083
With donor restrictions	31,675	-
	<hr/>	<hr/>
Total net assets	2,694,578	2,713,083
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Total liabilities and net assets	\$ 3,687,966	\$ 3,720,570
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See Notes to Financial Statements

COMMUNITY HEALTH NET

STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
Years Ended June 30, 2019 and 2018

	2019	2018
CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS		
Operating revenue:		
Net patient service revenue	\$ 7,279,759	\$ 7,213,045
Provision for bad debts	(201,646)	(210,641)
	<hr/>	<hr/>
Net patient service revenue less provision for bad debts	7,078,113	7,002,404
Grant revenue	2,516,501	2,437,979
Other revenue	289,455	69,867
	<hr/>	<hr/>
Total revenue	9,884,069	9,510,250
EXPENSES		
Salaries and wages	4,895,515	4,708,859
Supplies expense	1,750,135	1,563,557
Employee benefits	1,133,639	1,133,832
Contracted services	933,077	731,371
Occupancy	521,029	559,899
Depreciation	209,808	223,546
Equipment maintenance and rental	141,850	103,546
Insurance	48,875	73,429
Interest	10,851	13,795
Other expenses	289,470	275,869
	<hr/>	<hr/>
Total expenses	9,934,249	9,387,703
Change in net assets without donor restrictions	(50,180)	122,547
CHANGES IN NET ASSETS WITH DONOR RESTRICTIONS		
Contributions	31,675	-
	<hr/>	<hr/>
Change in net assets	(18,505)	122,547
Net assets:		
Beginning	2,713,083	2,590,536
	<hr/>	<hr/>
Ending	\$ 2,694,578	\$ 2,713,083
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See Notes to Financial Statements

COMMUNITY HEALTH NET

STATEMENTS OF CASH FLOWS

Years Ended June 30, 2019 and 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (18,505)	\$ 122,547
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	209,808	223,546
Provision for bad debts	201,646	210,641
(Increase) decrease in assets:		
Patient accounts receivable	(134,380)	16,453
Other accounts receivable	(55,880)	(151,083)
Pharmacy inventory	(18,085)	33,955
Prepaid expenses and other current assets	(36,379)	5,472
Increase (decrease) in liabilities:		
Accounts payable	117,704	(85,055)
Accrued payroll and payroll liabilities	(27,812)	53,973
Unearned grant revenue	(65,791)	22,102
Net cash provided by operating activities	172,326	452,551
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(73,472)	(30,116)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on long-term debt	(35,730)	(24,219)
Payments on capital lease	(2,470)	(2,251)
Net cash (used in) financing activities	(38,200)	(26,470)
Net increase in cash and cash equivalents	60,654	395,965
Cash and cash equivalents:		
Beginning	1,101,848	705,883
Ending	\$ 1,162,502	\$ 1,101,848
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest	\$ 10,851	\$ 13,795

See Notes to Financial Statements

COMMUNITY HEALTH NET

NOTES TO FINANCIAL STATEMENTS

Note 1. Nature of Operations and Summary of Significant Accounting Policies

Community Health Net (Organization) is organized exclusively for charitable purposes to establish, implement, and maintain a comprehensive plan and program for the delivery of primary health services to the medically indigent, medically needy, and other persons in the City and County of Erie.

Basis of accounting: The financial statements of the Organization have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America, whereby revenue is recognized when earned and expenses are recorded when incurred.

Use of estimates: The preparation of financial statements in accordance 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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

Cash and cash equivalents and deposit risk: Cash and cash equivalents include assets with an original maturity of three months or less. The Organization maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The accounts are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to certain limits. The Organization has not experienced any losses in such accounts.

Patient accounts receivable and net patient service revenue: Accounts receivable for patients, insurance companies, and governmental agencies are based on gross charges. An allowance for uncollectable accounts is established on an aggregate basis by using historical write-off rate factors applied to unpaid accounts based on financial class and aging. Loss rate factors are based on historical loss experience and adjusted for economic conditions and other trends affecting the Organization's ability to collect outstanding amounts. The Organization has reserved approximately 90% of third-party payor amounts greater than 90 days aged.

For receivables associated with uninsured patients, the Organization records a provision for doubtful accounts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The Organization's allowance for doubtful accounts for uninsured patients is 100% of self-pay accounts receivable as of June 30, 2019 and 2018.

The difference between the standard rates (or the discounted rates) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts in the period they are determined to be uncollectable.

An estimate for contractual reserves is applied against third-party payor balances based on an analysis of historical collection trends for each financial class and based on the difference in the Organization's rates and contracted rates.

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods, as final settlements are determined.

It is reasonably possible that the Organization's estimates will differ from actual results.

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. Compliance with such laws and regulations can be subject to future government review and interpretation, as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The Organization believes it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations.

COMMUNITY HEALTH NET

NOTES TO FINANCIAL STATEMENTS

Charity care: The Organization, by its mission, accepts all patients regardless of their ability to pay. The Organization maintains a charity care policy for which the purpose is the provision of health services to individuals who have demonstrated the inability to pay for all or part of the service. The Organization's policy is not to pursue collection of amounts determined to qualify as charity care based on federal poverty income levels. Accordingly, the financial statements do not include a provision for this care. The Organization has not changed its charity care or uninsured discount policies as of fiscal years 2019 or 2018.

Other accounts receivable: Other accounts receivable are stated at the amount the Organization expects to collect. Other accounts receivable relate primarily to wrap-around payments (WRAP) for visits occurring prior to June 30, 2019. Payments for these visits are received on a quarterly basis to subsidize the difference between payments under Medicaid managed care payors and the Medicaid program. Other accounts receivable also include funds receivable from grants for amounts already expended.

Pharmacy inventory: Pharmacy inventory is stated at the lower of cost or net realizable value. Cost is determined using the first-in, first-out (FIFO) basis. Net realizable value is the estimated selling price used in the ordinary course of business, less reasonable predictable costs of completions, disposal, and transportation. Management does not feel that it is holding any obsolete inventory and, accordingly, has not recorded a reserve against inventory.

Property and equipment: Property and equipment acquisitions are recorded at cost and donated property and equipment are stated at fair value as of the date of receipt. Depreciation of property and equipment, which includes depreciation of assets recorded under capital lease, are provided for using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are depreciated over the shorter of the term of the lease or their estimated useful lives.

Maintenance and repairs are charged to operations when incurred. Betterments and renewals are capitalized. When property and equipment are sold or otherwise disposed of, the asset accounts and related accumulated depreciation accounts are relieved, and any gain or loss is included in operations.

The Organization has a capital lease obligation in fixed assets amounting to \$12,001 as of 2019 and 2018. Accumulated depreciation amounted to \$4,800 and \$2,400 as of June 30, 2019 and 2018, respectively.

Unearned grant revenue: Unearned grant revenue includes funds received from grant agents that have not yet been earned by the Organization as the grant period is beyond June 30, 2019.

Net assets: Net assets include revenue, expenses, gains, and losses that are classified based on the existence or absence of donor-imposed stipulations. Accordingly, the net assets of the Organization and changes therein are classified and reported as follows:

Net assets without donor restrictions are net assets available for use in general operations and not subject to donor restrictions. All revenue not restricted by donors and donor restricted contributions whose restrictions are met in the same period in which they are received are accounted for in net assets without donor restrictions.

Net assets with donor restrictions result from contributions, grants, or other inflows of assets whose use by the Organization is limited by donor or grantor imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Organization pursuant to those stipulations, from other asset enhancements and diminishments subject to the same kinds of stipulations, or from reclassifications to or from other classes of net assets as a consequence of donor or grantor imposed stipulations, their expiration by passage of time, or their fulfillment and removal by actions of the Organization pursuant to those stipulations. Other donor-imposed restrictions may be perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

Grant revenue: Grant revenue relates to amounts received from the Department of Health and Human Services to fund operating expenses, except depreciation, interest, and other specifically unallowable expenses.

COMMUNITY HEALTH NET

NOTES TO FINANCIAL STATEMENTS

Change in net assets without donor restrictions: The statements of operations and changes in net assets include change in net assets without donor restrictions which is equivalent to excess (deficiency) of revenue over expenses as a performance indicator. Transactions deemed by management to be ongoing, major, or central to the Organization services are reported as operating revenue and expenses. Peripheral or incidental transactions would be reported as non-operating income (expenses). Items excluded from the performance indicator consistent with industry practice include contributions with donor restrictions.

Functional expense allocation: The costs of program and supporting service activities have been summarized on a functional basis in Note 12. The table of functional expenses presents the natural classification detail of expenses by function. Accordingly, certain costs may have been allocated among the programs and supporting services benefited.

Income taxes: The Organization is a nonprofit organization as described in Section 501(c)(3) of the Internal Revenue Code (Code) and is recognized as tax exempt under Section 501(a) of the Code. Accordingly, no provisions for income taxes have been included in the accompanying financial statements.

Accounting principles generally accepted in the United States of America require the Organization to evaluate tax positions taken by the Organization and recognize a tax liability or asset if the Organization has taken an uncertain position that more likely than not would be sustained upon examination by the Internal Revenue Services (IRS). The Organization has concluded that as of June 30, 2019 and 2018, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or asset or disclosure in the financial statements.

Generally, tax returns for years ended June 30, 2016, and thereafter remain subject to examination by federal and state tax authorities.

Advertising: The Organization follows the policy of charging advertising costs and marketing activities to expense as incurred. Total advertising and marketing costs for the years ended June 30, 2019 and 2018, amount to approximately \$23,500 and \$5,000, respectively.

Subsequent events: In preparing these financial statements, the Organization evaluated events that occurred through October 23, 2019, the date the financial statements were available to be issued, for potential recognition or disclosure.

Recent Accounting Pronouncements

Revenue Recognition: In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers*, which clarifies the principles for recognizing revenue and develops a common revenue standard for U.S. GAAP. This ASU attempts to remove inconsistencies and weaknesses in the current revenue recognition requirements, provides a more robust framework for addressing issues, improves comparability across entities and industries, provides more useful information to the users of the financial statements, and simplifies the preparation of financial statements by consolidating the number of requirements required to be referenced. The guidance permits the use of either a retrospective or modified retrospective (cumulative effect) transition method. The Organization will adopt this guidance for the year ending June 30, 2020. The Organization has evaluated the adoption of the guidance and does not currently believe it will have a material impact on its financial statements.

Leases: In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)* which supersedes FASB ASC Topic 840, *Leases*, and makes other conforming amendments to U.S. GAAP. This ASU requires, among other changes to the lease accounting guidance, lessees to recognize most leases on the balance sheet via a right-of-use asset and lease liability, and additional qualitative and quantitative disclosures. In addition, the updated guidance requires that lessors separate lease and non-lease components in a contract in accordance with the new revenue guidance in ASU 2014-09. Transition guidance is provided within the ASU and generally requires a retrospective approach. This guidance is effective for the Organization's fiscal year ending June 30, 2022. The Organization is currently evaluating the impact that adoption will have on its financial statements.

COMMUNITY HEALTH NET

NOTES TO FINANCIAL STATEMENTS

Not-for-Profit Entities: In August 2016, the FASB issued ASU 2016-14, (Topic 958): *Presentation of Financial Statements of Not-for-Profit Entities*. The amendments of this ASU change presentation and disclosure requirements for not-for-profit entities to provide more relevant information about their resources (and the changes in those resources) to donors, grantors, creditors, and other users. The amendments include qualitative and quantitative requirements in the financial statement presentation and disclosures regarding net asset classes, investment return, expenses, liquidity and availability of resources, and presentation of operating cash flows. The Organization adopted this guidance during the year ended June 30, 2019. The Organization applied the ASU retrospectively to all periods presented, except for the disclosures around liquidity and availability of resources as permitted by ASU 2016-14. Adoption of this guidance did not have a material impact on the Organization's financial statements.

Not-for-Profit Entities: In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities* (Topic 958): *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. These amendments clarify and improve the scope and accounting guidance around contributions of cash and other assets received and made by not-for-profit organizations (NFPs) and business enterprises. The ASU clarifies and improves current guidance about whether a transfer of assets, or the reduction, settlement, or cancellation of liabilities, is a contribution or an exchange transaction. It provides criteria for determining whether the resource provider is receiving commensurate value in return for the resources transferred which, depending on the outcome, determines whether the organization follows contribution guidance or exchange transaction guidance in the revenue recognition and other applicable standards. It also provides a more robust framework for determining whether a contribution is conditional or unconditional, and for distinguishing a donor-imposed condition from a donor-imposed restriction. This is important because such classification affects the timing of contribution revenue and expense recognition. The new ASU does not apply to transfers of assets from governments to businesses. The Organization is currently evaluating the impact, if any, that adoption will have on its June 30, 2020, financial statements.

Note 2. Liquidity and Availability of Resources

As of June 30, 2019, the Organization has working capital of approximately \$1,346,000, and approximately 43 days cash on hand. Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, consist of the following at June 30, 2019:

Cash and cash equivalents	\$ 1,162,502
Patient accounts receivable, net	468,285
Other accounts receivable	283,574
	<hr/>
	\$ 1,914,361

Note 3. Concentration of Credit Risks

The Organization grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor arrangements primarily with Medicare (MC), Medical Assistance (MA), various commercial insurance companies, and various Managed Care organizations. The mix of receivables from patients and third-party payors as of June 30 is as follows:

	2019		2018	
Medical Assistance and MA Managed Care	63	%	66	%
Medicare and MC Managed Care	24		21	
Other	9		9	
Self pay	4		4	
	<hr/>		<hr/>	
	100	%	100	%

COMMUNITY HEALTH NET**NOTES TO FINANCIAL STATEMENTS****Note 4. Note Payable**

Long-term debt as of June 30 consists of the following:

	2019	2018
Note payable in monthly installments of \$3,859, payable in full on January 1, 2025, bearing interest at 4.25%, secured by all assets of the Organization.	\$ 226,561	\$ 262,291
Less current maturities	37,206	35,556
Long-term debt, net of current maturities	\$ 189,355	\$ 226,735

Aggregate maturities of long-term debt, as of June 30, 2019, are due in future years as follows:

Years Ending June 30:

2020	\$ 37,206
2021	38,809
2022	40,516
2023	42,296
2024	44,144
Thereafter	23,590
	\$ 226,561

Note 5. Capital Lease

The Organization has a capital lease for equipment that is due in monthly installments of \$200 through September 2021.

Note 6. Defined Contribution Plan

The Organization sponsors a defined contribution plan (Plan) covering substantially all employees who meet a minimum hours of service requirement. Eligible employees may contribute a percentage of their compensation to the Plan subject to maximum amounts established by the Internal Revenue Service each year. The Organization, at its discretion, may match employee contributions at 100% of the first 2% deferred and 50% of the next 4% of the employee's compensation deferred. The Organization can also provide an additional discretionary allocation based on the percentage of a participant's compensation compared to total compensation. The Organization has approved a 2% match contribution for each of the years ended June 30, 2019 and 2018, and has accrued for approximately \$45,000 and \$46,000, which is included in accounts payable on the statements of financial position as of June 30, 2019 and 2018, respectively.

COMMUNITY HEALTH NET

NOTES TO FINANCIAL STATEMENTS

Note 7. Net Patient Service Revenue

Net patient service revenue consists of the following components for the years ended June 30:

	2019	2018
Gross patient service fees	\$ 13,734,633	\$ 13,767,010
Less provision for contractual allowances	(6,454,874)	(6,553,965)
Less provision for bad debts	(201,646)	(210,641)
	<u>\$ 7,078,113</u>	<u>\$ 7,002,404</u>

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered.

Contractual allowances represent the difference between the established billing rates and amounts estimated to be paid under various health benefit agreements, including Medicare, Medical Assistance of Pennsylvania, Highmark Inc., and other insurance plans. Provisions for contractual allowances are recorded in the period in which the services are provided.

Note 8. Grants

The Organization participates in federally assisted and other grant programs. These programs are subject to program compliance audits by the grantors or their representatives. The Organization is potentially liable for any expenditure that 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. A summary of the Organization's federally assisted and other grants discussed above for the years ended June 30 is as follows:

	2019	2018
Consolidated Health Centers Grant	\$ 2,328,208	\$ 2,231,661
Outpatient Early Intervention Services with Respect to HIV	154,082	162,709
Cooperative Agreement to Support Navigators in Federally-Facilitated and State Partnership Marketplaces	4,919	31,261
Other grants	29,292	12,348
Total grant revenue	<u>\$ 2,516,501</u>	<u>\$ 2,437,979</u>

Note 9. Contingencies

Laws and regulations: The health care 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 health care program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers.

Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that the Organization is in compliance with fraud and abuse as well as other applicable government laws and regulations. While no 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.

COMMUNITY HEALTH NET**NOTES TO FINANCIAL STATEMENTS**

Litigation: The Organization is involved in certain claims of legal actions arising in the ordinary course of business. In the opinion of management, after consultation with legal counsel, the ultimate dispositions of these matters are not expected to have a material adverse effect of the financial position of the Organization if the claims and legal actions prove unsuccessful.

Note 10. Operating Leases

The Organization leases a number of properties under non-cancellable lease agreements for which their clinics reside under operating leases, expiring through 2020. Rental expense was approximately \$65,000 for each of the years ended June 30, 2019 and 2018. Management estimates that annual rental expense will be approximately \$46,000 for fiscal year 2020.

Note 11. Net Assets with Donor Restrictions

Net assets with donor restrictions carry the following time or purpose restrictions as of June 30:

	2019	2018
Held for a specific purpose:		
Dental	\$ 15,353	\$ -
Vision	16,322	-
Total net assets with donor restrictions	\$ 31,675	\$ -

Note 12. Functional Expenses

The Organization provides general health care services to residents within its geographic location. Expenses related to providing these services for the year ended June 30, 2019, are as follows:

	Program Services	Administrative and General	Total
Salaries and wages	\$ 3,947,366	\$ 948,149	\$ 4,895,515
Supplies expense	1,723,501	26,634	1,750,135
Employee benefits	912,122	221,517	1,133,639
Contracted services	767,418	165,659	933,077
Occupancy	438,507	82,522	521,029
Depreciation	176,905	32,903	209,808
Equipment maintenance and rental	40,021	101,829	141,850
Insurance	12,480	36,395	48,875
Interest	-	10,851	10,851
Other expenses	178,491	110,979	289,470
Total expenses	\$ 8,196,811	\$ 1,737,438	\$ 9,934,249

The Organization had approximately \$7,414,000 of costs associated with program services and approximately \$1,974,000 of administrative and general costs for the year ended June 30, 2018.

COMMUNITY HEALTH NET

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2019

Federal Grantor/Pass-Through Grantor Program Title	Federal CFDA Number	Federal Expenditures
<u>U.S. Department of Health and Human Services</u>		
Passed through Health Resources and Services Administration:		
Consolidated Health Centers Grant	93.224	\$ 2,328,208
Outpatient Early Intervention Services with Respect to HIV Disease	93.918	154,082
Cooperative Agreement to Support Navigators in Federally- Facilitated and State Partnership Marketplaces	93.332	<u>4,919</u>
Total expenditures of federal awards		<u><u>\$ 2,487,209</u></u>

See Notes to Schedule of Expenditures of Federal Awards

COMMUNITY HEALTH NET

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (Schedule) includes the federal grant activity of Community Health Net (Organization) under programs of the federal government for the year ended June 30, 2019. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Organization, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Organization.

Note 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 the Uniform Guidance, *Cost Principles for Non-Profit Organizations*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

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

Board of Directors
Community Health Net
Erie, Pennsylvania

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Community Health Net (Organization), which comprise the statement of financial position as of June 30, 2019, and the related statements of operations and changes in net assets and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 23, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Organization's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization'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 a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Arnett Carbis Toothman LLP

Pittsburgh, Pennsylvania
October 23, 2019

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR THE MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Board of Directors
Community Health Net
Erie, Pennsylvania

Report on Compliance for the Major Federal Program

We have audited the compliance of Community Health Net (Organization) with the types of compliance requirements described in the OMB *Compliance Supplement* that could have a direct and material effect on Community Health Net's major federal program for the year ended June 30, 2019. Community Health Net's major federal program is identified in the summary of independent auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for Community Health Net'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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 Organization'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 Organization's compliance.

Opinion on the Major Federal Program

In our opinion, Community Health Net complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2019.

Report on Internal Control Over Compliance

Management of the Organization 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 Organization's internal control over compliance with the types of requirements that could have a direct and material effect on its major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for its major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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 Organization's internal control over compliance.

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

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

Purpose of this Report

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

Arnett Carbis Toothman LLP

Pittsburgh, Pennsylvania
October 23, 2019

COMMUNITY HEALTH NET

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2019**

SECTION I – SUMMARY OF INDEPENDENT AUDITOR’S RESULTS

Financial Statements

Type of auditor’s report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? Yes No

Significant deficiencies identified that are not considered to be material weakness(es)? Yes None Reported

Noncompliance material to financial statements noted? Yes No

Federal Awards

Type of auditor’s report issued on compliance for major program: Unmodified

Internal control over major program:

Material weakness(es) identified? Yes No

Significant deficiencies identified that are not considered to be material weakness(es)? Yes None Reported

Any audit findings disclosed that are required to be reported in accordance with Section 2 CFR 200.516(a)? Yes No

Identification of major program:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
93.224	Consolidated Health Centers Grant

Dollar threshold used to distinguish between type A and type B programs \$750,000

Auditee qualified as low-risk auditee? Yes No

SECTION II – FINANCIAL STATEMENT FINDINGS

None reported.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported.

COMMUNITY HEALTH NET

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended June 30, 2019

None reported.