Financial Statements
Years Ended
June 30, 2014 and 2013

Community Residences, Inc.

DIXON HUGHES GOODMAN LLP
Certified Public Accountants and Advisors

Community Residences, Inc.

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DIXON HUGHES GOODMAN LLP
Certified Public Accountants and Advisors

Independent Auditors' Report

To the Board of Directors of
Community Residences, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of ***Community Residences, Inc.*** (a not-for-profit organization), which comprise the statements of financial position as of June 30, 2014 and 2013, and the related statements of activities 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.

Auditors' 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. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of ***Community Residences, Inc.*** as of June 30, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Dixon Hughes Goodman LLP

Richmond, Virginia
November 24, 2014

Community Residences, Inc.

Statements of Financial Position

June 30, 2014 and 2013

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Community Residences, Inc.

Statements of Financial Position

June 30,	2014	2013
Assets		
Current assets		
Cash	$ 787,811	$ 5,765
Accounts receivable, net	1,980,106	2,267,618
Prepaid expenses	42,717	45,926
Due from Community Residence Inc.'s Affiliates	743,366	1,098,525
Due from Department of Medical Assistance Services	224,003	792,038
Total current assets	3,778,003	4,209,872
Restricted deposits		
Reserve for replacements	18,231	15,966
Residual receipts	6	6
Tenant security deposits	1,206	1,205
Deposits held in trust	174,156	169,961
Total restricted deposits	193,599	187,138
Property and equipment - net		
Land	111,519	111,519
Buildings	171,847	171,847
Improvements	74,120	74,120
Construction in progress	-	475
Vehicles and equipment	2,772,479	2,856,602
Total property and equipment	3,129,965	3,214,563
Less: accumulated depreciation	(2,596,984)	(2,488,783)
Total property and equipment - net	532,981	725,780
Other assets		
Security deposits	10,670	9,564
Start-up costs	13,128	13,128
Total other assets	23,798	22,692
Total assets	$ 4,528,381	$ 5,145,482

June 30,	2014	2013
Liabilities and Net Assets		
Current liabilities		
Accounts payable and accrued expenses	$ 2,600,999	$ 2,791,896
Due to Community Residence Inc.'s Affiliates	108,703	159,956
Client funds payable	278,964	263,075
Due to Department of Medical Assistance Services	1,265,609	627,826
Accrued interest payable	1,221	1,221
Line of credit	-	950,000
Notes payable - current portion	80,581	108,316
Mortgage payable - current portion	12,147	11,078
Capital lease payable - current portion	3,686	4,860
Total current liabilities	4,351,910	4,918,228
Long-term liabilities		
Tenant security deposits	2,708	3,288
Notes payable - less current portion	47,867	74,834
Mortgage payable - less current portion	125,022	137,168
Capital lease payable - less current portion	14,881	18,568
Total long-term liabilities	190,478	233,858
Total liabilities	4,542,388	5,152,086
Net assets		
Unrestricted	(40,263)	(6,604)
Temporarily restricted	26,256	-
Total net assets	(14,007)	(6,604)
Total liabilities and net assets	$ 4,528,381	$ 5,145,482

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

Community Residences, Inc.

Statements of Activities

Year Ended June 30, 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	2014
Unrestricted revenue and support				
Net consumer service revenue - medicaid	$ 22,131,934	$ -	$ -	$ 22,131,934
Net consumer service revenue - county funds	4,568,043	-	-	4,568,043
Net resident service and rent revenue - consumers	1,266,710	-	-	1,266,710
Tenant assistance payments	71,473	-	-	71,473
Grant revenue	96,929	-	-	96,929
Contributions	41,156	29,575	-	70,731
Program management revenue	43,720	-	-	43,720
Gain on sale of property	16,640	-	-	16,640
Other revenue	169,485	-	-	169,485
Net assets released from restrictions	3,319	(3,319)	-	-
Total unrestricted revenue and support	28,409,409	26,256	-	28,435,665
Expenses				
Program Services				
Personnel	16,886,629	-	-	16,886,629
Facility	1,612,254	-	-	1,612,254
Contract services	3,496,289	-	-	3,496,289
Equipment and supplies	1,073,685	-	-	1,073,685
Travel	336,271	-	-	336,271
Miscellaneous	1,099,006	-	-	1,099,006
Depreciation and amortization	200,856	-	-	200,856
Bad debts recovery	(117,171)	-	-	(117,171)
Interest	21,829	-	-	21,829
Total program services	24,609,648	-	-	24,609,648
Supporting Services				
Administrative	3,621,841	-	-	3,621,841
Fundraising	211,579	-	-	211,579
Total supporting services	3,833,420	-	-	3,833,420
Total expenses	28,443,068	-	-	28,443,068
Change in net assets	(33,659)	26,256	-	(7,403)
Net assets (deficit) - beginning of year	(6,604)	-	-	(6,604)
Net assets (deficit) - end of year	$ (40,263)	$ 26,256	$ -	$ (14,007)

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

Community Residences, Inc.

Statements of Activities

Year Ended June 30, 2013

	Unrestricted	Temporarily Restricted	Permanently Restricted	2013
Unrestricted revenue and support				
Net consumer service revenue - medicaid	$ 21,667,811	$ -	$ -	$ 21,667,811
Net consumer service revenue - county funds	4,014,278	-	-	4,014,278
Net resident service and rent revenue - consumers	1,255,727	-	-	1,255,727
Tenant assistance payments	74,913	-	-	74,913
Grant revenue	28,308	-	-	28,308
Contributions	123,648	-	-	123,648
Program management revenue	141,528	-	-	141,528
Gain on sale of property	9,547	-	-	9,547
Other revenue	313,797	-	-	313,797
Total unrestricted revenue and support	27,629,557	-	-	27,629,557
Expenses				
Program Services				
Personnel	16,639,077	-	-	16,639,077
Facility	1,528,325	-	-	1,528,325
Contract services	3,288,370	-	-	3,288,370
Equipment and supplies	1,039,881	-	-	1,039,881
Travel	334,493	-	-	334,493
Miscellaneous	1,109,874	-	-	1,109,874
Depreciation and amortization	232,057	-	-	232,057
Bad debts	135,162	-	-	135,162
Interest	30,101	-	-	30,101
Total program services	24,337,340	-	-	24,337,340
Supporting Services				
Administrative	3,170,552	-	-	3,170,552
Fundraising	144,645	-	-	144,645
Total supporting services	3,315,197	-	-	3,315,197
Total expenses	27,652,537	-	-	27,652,537
Change in net assets	(22,980)	-	-	(22,980)
Net assets - beginning of year	16,376	-	-	16,376
Net assets (deficit) - end of year	$ (6,604)	$ -	$ -	$ (6,604)

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

Community Residences, Inc.

Statements of Cash Flows

Years Ended June 30,	**2014**	**2013**
Cash flows from operating activities		
Change in net assets	$ (7,403)	$ (22,980)
Adjustments to reconcile to net cash from operating activities:		
Depreciation and amortization	292,606	317,535
Bad debt expense/provision	(117,171)	135,162
Gain on sale of property and equipment	(16,640)	(9,547)
Change in:		
Accounts receivable	404,683	(250,897)
Prepaid expenses	3,209	(17,853)
Due from\to Community Residence Inc.'s Affiliates	303,906	(549,134)
Due from\to Department of Medical Assistance Services	1,205,818	(581,670)
Tenant security deposits	(1,687)	(1,013)
Deposits held in trust	(4,195)	19,865
Accounts payable and accrued expenses	(190,897)	396,961
Client funds payable	15,889	(24,805)
Deferred revenue	-	(53,238)
Net cash from operating activities	1,888,118	(641,614)
Cash flows from investing activities		
Proceeds from sale of property and equipment	21,733	4,800
Purchase of property and equipment	(38,452)	(108,687)
Transfers to replacement reserves	(2,265)	(2,250)
Net cash from investing activities	(18,984)	(106,137)
Cash flows from financing activities		
Proceeds from line of credit	4,000,000	5,806,745
Payments on line of credit	(4,950,000)	(5,056,745)
Principal payments on mortgage payable	(11,077)	(9,346)
Proceeds from note payable	400	1,000
Principal payments on notes payable	(121,550)	(181,079)
Principal payments on capital leases payable	(4,861)	(6,320)
Net cash from investing activities	(1,087,088)	554,255
Net change in cash and cash equivalents	782,046	(193,496)
Cash and cash equivalents - beginning of year	5,765	199,261
Cash and cash equivalents - end of year	$ 787,811	$ 5,765
Supplemental disclosure of noncash investing and financing activities		
Vehicles purchases with notes payable	$ 66,448	$ 157,475
Capital lease obligations	-	11,995
Supplemental disclosure		
Interest expense paid	$ 75,349	$ 84,199

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

1. Organization and Nature of Activities

Community Residences, Inc. (Organization) was incorporated on October 17, 1975 in the Commonwealth of Virginia as a non-stock, non-profit organization. The primary purpose of the Organization is to establish, manage and operate assisted living facilities for those mentally and physically disabled individuals served by the Organization.

The primary sources of revenue include funding from the Virginia's Department of Medical Assistance Services (DMAS) for Intermediate Care Facilities (ICF/ID), Medwaiver, and State Plan Option programs. The Organization also receives revenue from Federal governmental agencies, the State of Maryland, and various County governments, consumer rent and services fees, contributions and donations obtained from the general public and other revenue sources. The Organization is affiliated through common ownership and control with Community Havens, Inc. (CH), which provides assisted living facilities for those with mental illness and are intellectually disabled; Community Residences Foundation, Inc., which provides financial security support for the programs; Community Residences of Arlington, Inc. (CRAI), which operates two U.S. Department of Housing and Urban Development housing projects for the intellectually disabled; and Residential Youth Services, Inc. (RYS), which operates an independent living program.

These financial statements include only the accounts of the Organization and they do not include financial position, activities, or cash flows of any of the other affiliated organizations noted in the prior paragraph.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying policies of the Organization are in accordance with accounting principles generally accepted in the United States of America applied on a basis consistent with that of the preceding years. The Organization reports information regarding its financial position and activities under standards for not-for-profit organizations issued by the Financial Accounting Standards Board Accounting Standards Codification (FASB ASC).

Basis of Accounting

These financial statements are prepared under the accrual basis of accounting. Under this accounting method, income is recorded as earned and expenses are recorded as incurred.

Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities. These estimates also affect the disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Accordingly, actual results could differ from those estimates and assumptions.

Classification of Net Assets

Under the standards for not-for-profit organizations issued by the FASB ASC, the Organization is required to report information regarding its financial position and activities in three classes of net assets as follows:

Unrestricted net assets are those currently available at the discretion of the Organization's Board of Directors for use in the Organization's operations.

Temporarily restricted net assets are those that are stipulated by donors for specific operating purposes, purchases of equipment or capital improvements. When a donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. If a donation restriction expires in the same reporting period, the Organization reports the contribution as unrestricted. There were temporarily restricted net assets of $26,256 at June 30, 2014. There were no temporarily restricted net assets at June 30, 2013.

Permanently restricted net assets are restricted by the donor and are to be maintained permanently by the Organization. The related income is expendable in accordance with the conditions of each specific donation. There were no permanently restricted net assets at June 30, 2014 and 2013.

Cash and Cash Equivalents

The Organization considers all cash and investment accounts with original maturities of three months or less to be cash equivalents.

Deposits Held in Trust

The Organization acts as a representative payee/trustee on behalf of the consumer personal funds. Withdrawals from the funds are used strictly to cover the patient pay obligations and consumers authorized spending as determined/approved by the Virginia Department of Social Services. The balance of deposits held in trust as of June 30, 2014 and 2013 was $174,156 and $169,961, respectively.

Medicaid Revenue

Medicaid revenue is reported at the estimated net realizable amounts. Laws and regulations governing the Medicaid program are extremely complex and subject to interpretation. As result, there is at least a reasonable possibility that recorded estimates may change by a material amount in the near term. Since the determination of reimbursement settlements of amounts earned in prior years is based on reasonable estimation the difference in any year between the originally estimated amount and the final determination is reported in the year of final settlement.

The 2014 net consumer service revenue – Medicaid decreased approximately $240,000 due to prior-year settlement adjustments in excess of amounts previously estimated for the Organization's ICF/ID facilities.

Deferred Revenue

Revenue received in advance is recorded as deferred until the earning process is completed.

Concentrations of Credit Risk

The Organization places its cash with high credit quality financial institutions and, at times, may have balances in excess of the $250,000 federally insured limit during the year. Total uninsured cash balances at June 30, 2014 were $668,173. Bank balances at June 30, 2013 were fully insured. The Organization believes it is not exposed to any significant credit risk on its cash balances.

The Organization's Intermediate Care Facilities and Medwaiver programs are funded under the state Medicaid program. The Medicaid programs represent 78 percent of the Organization's revenue at June 30, 2014 and 2013. As such, budgetary cuts for Medicaid funding by the Federal and State governments could have an impact on the operations of the Organization.

Property and Equipment

Property and equipment are stated at cost or, for donated assets, at fair market value at date of gift. The assets are depreciated using the straight-line method over the assets estimated useful. Asset useful lives range from 3 to 30 years. The Organization capitalizes all property and equipment valued over $2,500. The Organization records depreciation expense in program services and program support services. Depreciation and amortization expense totaled $292,606 and $317,535 at June 30, 2014 and 2013, respectively.

Income Tax Status

The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code; accordingly, the accompanying financial statements do not reflect a provision or liability for federal and state income taxes. The Organization has determined that it does not have any material unrecognized tax benefits or obligations as of June 30, 2014 and 2013. Fiscal years ending on or after June 30, 2011 remain subject to examination by federal and state tax authorities.

Subsequent Events

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through November 24, 2014, the date the financial statements were available to be issued.

3. Accounts Receivable

Accounts receivable consist principally of amounts due from state Medicaid programs, county contracts and consumers, net of an allowance for potentially uncollectible amounts. Management considers the allowance adequate to cover those balances determined to be uncollectible. The allowance is based on historical collection experience and management's review of the current status of existing receivables.

Accounts receivable consist of the following as of June 30:

	2014	2013
Billed accounts receivable	$ 2,032,059	$ 2,375,605
Less: allowance for uncollectible accounts	(51,953)	(107,987)
Net accounts receivable	$ 1,980,106	$ 2,267,618

4. Due From Affiliates

During the normal course of business, the Organization makes and receives temporary, noninterest-bearing cash advances to and from affiliates. As of June 30, 2014 and 2013, amounts due from\to Affiliates are as follows:

Due From Affiliates:		**2014**		**2013**
Community Residences of Arlington, Inc.	$	47,114	$	21,702
Community Residences Foundation, Inc.		41,317		25,353
Community Havens, Inc.		463,142		657,881
Residential Youth Services		191,793		393,589
	$	743,366	$	1,098,525
Due To Affiliates:		**2014**		**2013**
Community Residences of Arlington, Inc.	$	(75)	$	(8,949)
Community Havens, Inc.		(108,628)		(151,007)
	$	(108,703)	$	(159,956)
Net Due from Affiliates	$	634,665	$	938,569

5. Department of Medical Assistance Services Estimated Settlements

Services rendered to the Medicaid program beneficiaries that are residents of the ICF/ID facilities are reimbursed under a cost based reimbursement methodology. The Organization is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the Organization and audits thereof by the Medicaid program. In the opinion of management, adequate provision has been made for adjustments, if any, that may result from final settlements.

As of June 30, 2014 and 2013, estimated settlement amounts due from / to DMAS to the ICF/ID facilities are as follows:

Due From DMAS:		**2014**		**2013**
16th Street	$	-	$	55,640
Brambleton		2,278		164,685
Jackson Street		-		186,565
McKinley Road		-		85,104
Minerva Fisher		-		93,837
Other		57,015		66,985
Park Road		-		106,104
Parliament		164,710		-
Reservoir		-		5,852
Riverside		-		25,655
Snow Flake		-		1,611
Total	$	224,003	$	792,038

Due To DMAS:	2014	2013
16th Street	$ (126,451)	$ (16,349)
Brambleton	(39,384)	(10,382)
Jackson Street	(73,743)	(15,649)
Lake Jackson	(132,907)	(159,663)
McKinley	(82,561)	(15,370)
Minerva	(102,069)	(27,948)
Oak Street	(28,010)	(80,898)
Other	(15,580)	(15,580)
Park Road	(124,924)	(18,777)
Parliament	(119,518)	(92,073)
Queen Elizabeth	(178,929)	(39,221)
Reservoir	(75,991)	(14,470)
Riverside	(79,541)	(25,588)
Snowflake	(86,001)	(95,858)
Total	$ (1,265,609)	$ (627,826)
Net	$ (1,041,606)	$ 164,212

6. Capital Lease Obligations

The Organization has capital lease contractual agreements for a vehicle and equipment. As of June 30, 2014 and 2013, the asset and liability under the capital leases have been recorded at their fair market values of $24,927 and $28,221, respectively. The assets are depreciated over its estimated useful productive life. Accumulated depreciation as of June 30, 2014 and 2013 was $8,724 and $6,310 respectively. Depreciation expense associated with the leases was $4,985 and $3,906 for 2014 and 2013, respectively. The net book value for June 30, 2014 and 2013 is $16,203 and $21,911, respectively.

Future minimum lease payments are as follows:

	2014	2013
Future minimum lease payments	$ 18,782	$ 23,973
Less – amount representing interest over the remaining term of the lease	(215)	(545)
	18,567	23,428
Less – current portion	(3,686)	(4,860)
	$ 14,881	$ 18,568

7. Restricted Deposits and Funded Reserves

Restricted deposits and funded reserves consisted of the following at June 30:

	2014	2013
Residual Receipt Deposits as Required by the Department of Housing and Urban Development	$ 6	$ 6
Replacement Reserves as Required by the Department of Housing and Urban Development	18,231	15,966
	$ 18,237	$ 15,972

8. Long-Term Debt

Long-term debt consisted of the following at June 30:

	2014	2013
U.S. Department of Housing and Urban Development, mortgage note, interest at 9.25 percent, collateralized by the respective property, payable in monthly installments of $2,027, including principal and interest, plus a monthly escrow deposit of $154, final payment due June 2022.	$ 137,167	$ 148,246
Various vehicles notes payable, interest rates ranging between 4.50 percent and 6.00 percent, collateralized by the respective vehicles, payable in monthly installments of $7,781 principal and interest, various maturity dates through December 2016.	128,450	183,150
	265,617	$ 331,396
Less – current maturities	(92,728)	(119,394)
	$ 172,889	$ 212,002

Principal maturities of long-term debt for future years ending June 30 are as follows:

2015	$ 92,728
2016	51,619
2017	24,175
2018	16,015
2019	17,561
Thereafter	63,519
	$ 265,617

Interest expense on this and other debt was $75,349 and $84,199 for the years ended June 30, 2014 and 2013, respectively.

9. Bonds Payable Obligations

On September 26, 2006, Community Havens, Inc. (CHI), an affiliated company, refinanced its bonds payable along with certain notes and mortgage payable. The bond refinancing totaled $12,000,000. The refinancing involved a new Series 2006A Bond which is exempt from all federal and Commonwealth of Virginia income taxes and a Series 2006B Bond which is taxable.

The interest rate for Series 2006A bond is at 1.16 percent per annum and is readjusted every five years at 120 percent of the rate published from time to time by the Federal Reserve Board and in effect on the Reset Dates, as the “Five Year U.S. Treasury Constant.” The Series A bond is payable over thirty years. The interest rate for the Series 2006B Bond is fixed at 3.72 percent at the rate published from time to time by the Federal Reserve Boards and in effect on the Reset Date, as the “Five Year U.S. Treasury Constant,” plus 275 basis points. The Series 2006B Bond matures on May 1, 2016, at which time the entire principal balance, accrued and unpaid interest, plus other applicable fees and charges will be due and payable.

The Organization and Community Havens (Havens) are co-borrowers and are jointly liable for obligations. The Series 2006A and Series 2006B bonds are recorded in the financial statements of CHI. The debt is collateralized by a first deed of trust on various commercial and residential property owned by CHI as well as a perfected first lien security interest in all of the Organization’s and CHI’s assets. The outstanding balance of bonds payable on the books of CHI at June 30, 2014 was $6,126,344 for the Series 2006A Bond and $3,532,917 for the Series 2006B Bond and at June 30, 2013 was $6,365,856 for the Series 2006A Bond and $3,632,528 for the Series 2006B Bond.

10. Line of Credit

The Organization is a co-borrower with the Community Havens, Inc. (CHI), an affiliated company on a $2,500,000 line. Interest is payable monthly at *The Wall Street Journal* rate of prime plus one-half percent (3.75 percent) with principal due on demand. The line is collateralized by a first security interest in all business assets, including all accounts receivable and various real properties owned by the Organization and CHI. During 2014, the line was extended, and is due to mature at February 15, 2015. There was no outstanding balance on CRI’s books at June 30, 2014. The balance outstanding on CRI’s books at June 30, 2013 was $950,000.

11. Retirement Plan

The Organization has a defined contribution plan 403(b) retirement plan (Plan) for the benefit of its employees. Employees may elect to defer up to the IRS maximum of compensation into the Plan. The Organization contributes four percent of the eligible compensation for each employee to the Plan after one year of vesting service. In addition, for employees who have been employed for two or more years, the Organization matches 50 percent of each employee’s deferred amount up to a maximum of two percent of the eligible compensation.

During 2014 and 2013, CRI used $8,487 and $51,908, respectively, in forfeiture credits to offset its contributions to the Plan. For the years ended June 30, 2014 and 2013, the Organization contributed $575,517 and $524,872, respectively, to the Plan.

12. Related Parties

The Organization is involved in related party transactions with Community Havens, Inc. (Havens), Community Residences of Arlington, Inc. (CRAI), Community Residences Foundation, Inc. (Foundation), and Residential Youth Services, Inc. (RYS). During the fiscal year, the Organization provided services to its Affiliates, which include personnel, rental and other facility costs, and equipment and supplies. The balances outstanding at June 30, 2014 and 2013 are identified in Note 4 above.

13. New Pronouncement

In April 2013, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2013-06 *Not-for-Profit Entities: Services Received from Personnel of an Affiliate*. The amendments in this ASU require a recipient not-for-profit entity to recognize all services received from personnel of an affiliate that directly benefit the recipient not-for-profit entity. Those services should be measured at the cost recognized by the affiliate for the personnel providing those services. However, if measuring a service received from personnel of an affiliate at cost will significantly overstate or understate the value of the service received, the recipient not-for-profit entity may elect to recognize that service received at either (1) the cost recognized by the affiliate for the personnel providing that service or (2) the fair value of that service.

The amendments in this ASU are effective prospectively for fiscal years beginning after June 15, 2014. At present, the Organization has not evaluated the impact of the adoption of the ASU.

14. Commitments and Contingencies

The Organization is subject to legal proceedings and claims which arise in the ordinary course of providing health care services. The Organization maintains malpractice insurance on a claims-made basis ($1,000,000 per claim and $3,000,000 in the aggregate) for claims made during the terms of the policy. In management's opinion, adequate provision has been made for amounts expected to be paid under the policy's deductible limits for asserted and unasserted claims. In addition, management is not aware of any asserted or unasserted claims not covered by the policy or any other insured liability. However, the outcome of such claims cannot be estimated. The Organization carries excess coverage through a commercial general liability policy up to $5,000,000 per occurrence.

Regulatory Contingencies

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.

15. Economic Dependence

As disclosed in Notes 1, 4, and 12 the Organization is part of several organizations that are all financially interrelated affiliates. The Organization provides administrative services to the affiliates and is economically dependent on those affiliates.

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