

CAROLINA FAMILY  
HEALTH CENTERS, INC.

Financial Statements, Compliance  
Reports and Supplemental Schedules

June 30, 2012 and 2011

(with Independent Auditors'  
Report thereon)

**CAROLINA FAMILY HEALTH CENTERS, INC.**

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June 30, 2012 and 2011

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**DIXON HUGHES GOODMAN** LLP  
Certified Public Accountants and Advisors

## **Independent Auditors' Report**

To the Finance Committee  
Carolina Family Health Centers, Inc.  
Wilson, North Carolina

We have audited the accompanying balance sheets of Carolina Family Health Centers, Inc. (a not-for-profit organization) (the "Center") as of June 30, 2012 and 2011, and the related statements of operations and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Center's management. 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Center's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Center as of June 30, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 17, 2012, on our consideration of the Center'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* and should be considered in assessing the results of our audit.

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the 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.

*Dixon Hughes Goodman LLP*

September 17, 2012

**CAROLINA FAMILY HEALTH CENTERS, INC.**

Balance Sheets

June 30, 2012 and 2011

<u>Assets</u>	<u>2012</u>	<u>2011</u>
Current assets:		
Cash and cash equivalents	\$ 953,382	\$ 310,480
Restricted funds under loan agreement	116,757	224,151
Short-term investments	483,212	480,925
Patient accounts receivable, net of allowance for estimated uncollectible accounts of approximately \$1,502,000 and \$1,167,000 in 2012 and 2011, respectively	164,395	194,196
Estimated third-party payor settlements	231,196	142,638
Other receivables	111,633	124,329
Prepaid expenses and supplies	83,142	96,619
Inventory	<u>152,300</u>	<u>138,451</u>
Total current assets	2,296,017	1,711,789
Property and equipment, net	<u>7,075,595</u>	<u>6,959,307</u>
Total assets	<u>\$ 9,371,612</u>	<u>\$ 8,671,096</u>
 <b><u>Liabilities and Net Assets</u></b> 		
Current liabilities:		
Current installments of long-term debt	\$ 142,176	\$ 126,335
Accounts payable	243,613	138,607
Accrued expenses	510,057	482,176
Deferred revenue	<u>109,092</u>	<u>91,120</u>
Total current liabilities	1,004,938	838,238
Long-term debt, less current installments	<u>4,267,173</u>	<u>4,125,241</u>
Total liabilities	5,272,111	4,963,479
Net assets:		
Unrestricted	<u>4,099,501</u>	<u>3,707,617</u>
Total liabilities and net assets	<u>\$ 9,371,612</u>	<u>\$ 8,671,096</u>

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

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**CAROLINA FAMILY HEALTH CENTERS, INC.**

Statements of Operations and Changes in Net Assets

For the Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Unrestricted net assets:		
Unrestricted revenues, gains and other support:		
Grant revenue	\$ 4,995,686	\$ 5,108,374
Net patient service revenue	8,830,142	7,063,453
Miscellaneous income	348,014	322,789
Investment income	5,606	9,159
Contributed services	<u>195,800</u>	<u>186,400</u>
Total unrestricted revenues, gains and other support	<u>14,375,248</u>	<u>12,690,175</u>
Expenses:		
Salaries and wages	6,316,649	6,347,679
Employee benefits	1,390,974	1,266,437
Contract services	1,301,564	867,846
Professional fees	110,903	84,298
Supplies	2,977,365	2,336,674
Facility	412,318	386,051
Travel	96,076	129,792
Utilities	108,473	95,529
Insurance	26,135	15,373
Telephone	103,446	99,104
Dues and subscriptions	8,423	37,974
Contributed services	195,800	186,400
Bad debts	276,860	176,286
Depreciation	425,136	265,482
Other	<u>324,093</u>	<u>272,976</u>
Total expenses	<u>14,074,215</u>	<u>12,567,901</u>
Operating income	301,033	122,274
Grants and contributions for purchase of property and equipment	<u>90,851</u>	<u>662,970</u>
Increase in net assets	391,884	785,244
Net assets, beginning of year	<u>3,707,617</u>	<u>2,922,373</u>
Net assets, end of year	<u>\$ 4,099,501</u>	<u>\$ 3,707,617</u>

**CAROLINA FAMILY HEALTH CENTERS, INC.**

Statements of Cash Flows

For the Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Operating activities:		
Increase in net assets	\$ 391,884	\$ 785,244
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Bad debts	276,860	176,286
Depreciation	425,136	265,482
Grants and contributions for purchase of property and equipment	(90,851)	(662,970)
Net change in:		
Patient accounts receivable	(247,059)	(68,661)
Estimated third-party payor settlements	(88,558)	(62,883)
Other receivables	12,696	2,658
Prepaid expenses and supplies	13,477	35,524
Inventory	(13,849)	(7,589)
Accounts payable	105,006	(50,837)
Accrued expenses	27,881	(128,598)
Deferred revenue	<u>17,972</u>	<u>(63,728)</u>
Net cash provided by operating activities	<u>830,595</u>	<u>219,928</u>
Investing activities:		
Net change in short-term investments	(2,287)	(4,940)
(Increase) decrease in restricted funds under loan agreement	107,394	(35,509)
Purchase of property and equipment	<u>(541,424)</u>	<u>(1,812,952)</u>
Net cash used in investing activities	<u>(436,317)</u>	<u>(1,853,401)</u>
Financing activities:		
Proceeds from issuance of long-term debt	278,228	1,121,772
Principal payments on long-term debt	(120,455)	(111,238)
Grants and contributions received for purchases of property and equipment	<u>90,851</u>	<u>662,970</u>
Net cash provided by financing activities	<u>248,624</u>	<u>1,673,504</u>
Net change in cash and cash equivalents	642,902	40,031
Cash and cash equivalents, beginning of year	<u>310,480</u>	<u>270,449</u>
Cash and cash equivalents, end of year	<u>\$ 953,382</u>	<u>\$ 310,480</u>
Supplemental disclosures of cash flow information:		
Cash paid for interest	<u>\$ 141,874</u>	<u>\$ 147,021</u>
Deferred revenues used for purchase of property and equipment	<u>\$ 90,851</u>	<u>\$ 28,900</u>

## CAROLINA FAMILY HEALTH CENTERS, INC.

Notes to Financial Statements

June 30, 2012 and 2011

### 1. **Description of Organization and Summary of Significant Accounting Policies**

**Organization and Basic Program** – Carolina Family Health Centers, Inc., (the “Center”) a federally qualified community health center, is a not-for-profit tax-exempt organization under Internal Revenue Code 501(c)(3). The Center opened in Wilson, North Carolina in August 1994 and now operates additional sites in rural Nash and Edgecombe counties, North Carolina. In addition to basic primary care, the practice provides dental service, health education including special diabetes and HIV/AIDS programs, behavioral health, medication assistance and laboratory services.

**Use of Estimates** – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Contributed Services** – Contributed professional services are recognized at fair value in the financial statements if the services received (a) create or enhance long-lived assets or (b) require specialized skills, and would typically need to be purchased if not provided by donation. During 2012 and 2011, the Center received services in its pharmacy from a pharmacist and student interns. The services were valued at approximately \$196,000 and \$186,000 for 2012 and 2011, respectively.

**Cash and Cash Equivalents** – For the purpose of reporting cash flows, the Center considers all short-term investments having a maturity at the date of purchase of three months or less to be cash equivalents. Throughout the year, the Center had bank balances in financial institutions that exceeded federal depository insurance limits.

**Restricted Funds Under Loan Agreement** – Restricted funds under loan agreement includes reserve funds required under the Center’s U.S. Department of Agriculture (“USDA”) Rural Development Loan. The reserve can be established in a single deposit equal to one year’s debt service or in annual deposits equal to ten percent of the annual payment until the reserve has an amount equal to one year’s debt service. The minimum amount required to be reserved at June 30, 2012 and 2011 is \$61,655 and \$49,324, respectively. Restricted funds above this amount will be used for annual debt service. Details regarding this loan are included at Note 4.

**Short-Term Investments** – Short-term investments include certificates of deposit which are recorded at historical cost. Investment income is included in the period earned in the change in unrestricted net assets unless the income is restricted by donor or law.

**Property and Equipment** – Property and equipment acquisitions are recorded at cost and donated property and equipment is recorded at fair market value at date of donation. Depreciation is provided over the estimated useful life of each class of depreciable assets, ranging from 3 to 39 years, and is computed using the straight-line method.

**Inventory** – Inventory is stated at the lower of cost (first-in, first-out method) or market.

**Deferred Revenue** – Deferred revenue is revenue received from various government agencies that has yet to be expended by the Center for the purpose stated within the agreement between the Center and the government agency.

**Net Patient Service Revenue** – The Center has agreements with third-party payors that provide for payments to the Center at amounts different from its established rates. Payment arrangements include fee for service, reimbursed costs, discounted charges and per visit payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered.

**Sliding Fee Discount Program** – The Center provides care to patients who meet certain criteria, based on official poverty guidelines issued by the Department of Health and Human Services, under its sliding fee discount program policy. This program reduces the amount that uninsured or under-insured patients must pay for services provided by the Center. These amounts are deducted from the gross charges in arriving at net patient service revenue. The amount of charges foregone for services and supplies furnished under the Center's sliding fee discount program aggregated approximately \$4,010,000 and \$4,287,000 for 2012 and 2011, respectively.

**Patient Accounts Receivable, Net** – Patient accounts receivable are reported at estimated net realizable amounts from patients and responsible third-party payors. Amounts owed to the Center are reported net of estimated allowances for uncollectible accounts. Specific patient balances are written off at the time they are determined to be uncollectible. The process for estimating the ultimate collection of patient receivables involves significant assumptions and judgments. In this regard, the Center has implemented a standardized approach to estimate and review the collectability of its receivables based on patient accounts receivable aging trends. Historical collection and payer reimbursement experience are an integral part of the estimation process related to determining allowances for uncollectible accounts. In addition, the Center assesses the current state of its billing functions in order to identify any reserve estimates, which involve judgment. Revisions to reserve estimates are recorded as adjustments to bad debt expense. The Center believes that its collection and reserves processes, along with the monitoring of its billing processes, help to reduce the risk associated with material revisions to reserve estimates

resulting from adverse changes in collection, reimbursement experience and billing functions.

**Operating Income** – The statements of operations and changes in net assets includes operating income. Changes in net assets that are excluded from operating income, consistent with industry practice, are contributions of long-lived assets (including assets acquired using contributions that by donor restriction were to be used for the purpose of acquiring such assets).

**Income Taxes** – The Center is a tax-exempt organization as described in 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 Center has determined that it does not have any material unrecognized tax benefits or obligations as of June 30, 2012. The Center believes it is no longer subject to income tax examinations for years prior to June 30, 2009.

**Subsequent Events** – The Center evaluated the effect subsequent events would have on the financial statements through September 17, 2012, which is the date the financial statements were available to be issued.

## 2. **Net Patient Service Revenue**

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

- **Medicare** – Services rendered to Medicare program beneficiaries are reimbursed in accordance with Federally Qualified Health Center Regulations as published in CMS-Pub. 27. A retrospective cost based reimbursement methodology is used for care visit services paid through a fiscal intermediary. Reimbursable other ancillary services are paid on a fee for services basis and are administered by an insurance carrier. The Center's Medicare cost reports have been desk reviewed by the fiscal intermediary through June 30, 2011.
- **Medicaid** – Services rendered to Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology. The Center is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the Center and audits thereof by the Medicaid fiscal intermediary. The Center's Medicaid cost reports have been desk reviewed by the North Carolina Medicaid program through June 30, 2010.

Net patient service revenue was increased by approximately \$142,000 and \$18,000 for the years 2012 and 2011, respectively, as a result of changes in estimates associated with settlements and other revisions to prior years for third-party payor settlement accounts.

The Center also has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the Center under these agreements includes discounts from established charges and prospectively determined visit rates.

Revenue from the Medicare program accounted for approximately 17% and 20% of the Center's net patient service revenue for the years ended 2012 and 2011, respectively. Revenue from the Medicaid program accounted for approximately 7% and 8% of the Center's net patient service revenue for the years ended 2012 and 2011, respectively.

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. The Center believes that they are in compliance with all applicable laws and regulations. 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.

### 3. **Property and Equipment**

A summary of property and equipment at June 30 follows:

	<u>2012</u>	<u>2011</u>
Land	\$ 342,420	\$ 342,420
Buildings and building improvements	7,128,199	6,836,690
Equipment	1,420,721	1,009,978
Furniture and fixtures	50,082	50,082
Construction in progress	<u>76,044</u>	<u>238,768</u>
	9,017,466	8,477,938
Less accumulated depreciation	<u>(1,941,871)</u>	<u>(1,518,631)</u>
Property and equipment, net	<u>\$ 7,075,595</u>	<u>\$ 6,959,307</u>

4. **Long-Term Debt**

A summary of long-term debt at June 30 follows:

	<u>2012</u>	<u>2011</u>
Mortgage payable with a financial institution, monthly payments of \$8,881, including interest at 5.0%, payable over 119 months with final balloon payment of unpaid principal and interest due September 2015, secured by deed of trust.	\$ 1,031,123	\$ 1,084,521
Note payable to a financial institution, monthly payments of \$2,480, including interest at 8.5%, payable over 120 months, maturing December 2015, unsecured.	79,180	102,801
Mortgage payable to the USDA, annual payments of \$123,312, including interest at 4.125%, payable over 30 years, maturing May 2038, secured by deed of trust.	1,899,046	1,942,482
Mortgage payable to the USDA, annual payments of \$64,302 of principal and interest at 3.375%, payable over 40 years with final payment due April 2052, secured by deed of trust. Also see note below.	<u>1,400,000</u>	<u>1,121,772</u>
	4,409,349	4,251,576
Less current installments	<u>(142,176)</u>	<u>(126,335)</u>
	<u>\$ 4,267,173</u>	<u>\$ 4,125,241</u>

In April 2012, the Center obtained USDA funding of \$1,400,000 to complete construction and pay off the construction loan payable. The construction loan payable had a balance of \$1,121,772 at June 30, 2011 with monthly payments of interest only (4.75% at June 30, 2011), with a maximum draw of \$1,224,000. The construction loan payable was secured by a deed of trust. The funds from the construction loan payable and the \$1,400,000 mortgage has been used in conjunction with other funds to expand services of the Harvest Family Health Center located in Wilson County.

Scheduled principal payments on long-term debt are as follows:

<u>Year ending June 30,</u>	
2013	\$ 142,176
2014	152,634
2015	157,117
2016	921,155
2017	72,258
Thereafter	<u>2,964,009</u>
	<u>\$ 4,409,349</u>

5. **Medical Malpractice Claims**

The Center is insured under Section 224(a) of the Public Health Act, 42 U.S.C. 233 (L) as amended by the Federally Supported Health Centers Assistance Act of 1995. Section 224(a) provides liability protection under the Federal Tort Claims Act for damage for personal injury, including death, resulting from the performance of medical, surgical, dental and related functions. The coverage is comparable to an occurrence policy and has no monetary cap.

6. **Retirement Plan**

The Center maintains a 403(b) plan for all full-time employees. Employees can contribute the maximum allowed by federal law and the Center provides a matching contribution of up to 3% of each employee's compensation. The Center will provide up to an additional 1% contribution for those employees who contribute between 3% and 5% of their compensation. Total contributions to the plan were approximately \$163,000 in 2012 and \$172,000 in 2011.

7. **Concentrations of Credit Risk**

The Center grants credit without collateral to its patients, most of whom are local residents and are partially insured under third-party payor agreements. The mix of receivables from patients and third-party payors follows at June 30:

	<u>2012</u>	<u>2011</u>
Medicare	12%	9%
Medicaid	10%	11%
Private insurance	7%	8%
Patients	<u>71%</u>	<u>72%</u>
	<u>100%</u>	<u>100%</u>

8. **Operating Leases**

The Center is obligated under non-cancelable operating leases for certain administrative facilities and equipment. Total rent and lease expense for 2012 and 2011 was approximately \$54,000 and \$46,000, respectively.

The Center has minimum lease obligations as follows for the year ending June 30:

2013	\$ 68,920
2014	68,920
2015	68,920
2016	<u>26,202</u>
Total	<u>\$ 232,962</u>

9. **Functional Expenses**

The Center provides general health, dental and pharmaceutical services to residents within its geographic location. Expenses related to providing these services are as follows for the years ended June 30:

	<u>2012</u>	<u>2011</u>
Health care services	\$ 12,702,551	\$ 11,264,479
General and administrative	<u>1,371,664</u>	<u>1,303,422</u>
	<u>\$ 14,074,215</u>	<u>\$ 12,567,901</u>



**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 Finance Committee  
Carolina Family Health Centers, Inc.

We have audited the financial statements of Carolina Family Health Centers, Inc. (the "Center") as of and for the years ended June 30, 2012 and 2011, and have issued our report thereon dated September 17, 2012. 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.

**Internal Control over Financial Reporting**

Management of the Center is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audits, we considered the Center's internal control over financial reporting as a basis for designing our auditing procedures 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 Center's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Center's internal control over financial reporting.

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 misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the Center's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. 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.

To the Finance Committee  
Carolina Family Health Centers, Inc.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance 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*.

This report is intended solely for the information and use of the management, Finance Committee, others within the entity, and federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Dixon Hughes Goodman LLP*

September 17, 2012



**Independent Auditors' Report on Compliance with Requirements that Could Have a Direct and Material Effect on Each Major Federal Program and on Internal Control over Compliance in Accordance with OMB Circular A-133**

To the Finance Committee  
Carolina Family Health Centers, Inc.

**Compliance**

We have audited the compliance of Carolina Family Health Centers, Inc. (the "Center") with the types of compliance requirements described in *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Center's major federal programs for the year ended June 30, 2012. The Center's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Center's management. Our responsibility is to express an opinion on the Center's compliance based on our audit.

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. Our audit does not provide a legal determination of the Center's compliance with those requirements.

In our opinion, the Center complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

To the Finance Committee  
Carolina Family Health Centers, Inc.

### **Internal Control over Compliance**

Management of the Center is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Center's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance 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.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the management, Finance Committee, others within the Center, federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Dixon Hughes Goodman LLP*

September 17, 2012

**CAROLINA FAMILY HEALTH CENTERS, INC.**

Schedule of Expenditures of Federal and State Awards

For the Year Ended June 30, 2012

<u>Grantor/ Program or Cluster Title</u>	<u>Federal CFDA/ Contract Number</u>	<u>Expenditures</u>
<i>Federal Awards:</i>		
<b>U.S. Department of Health and Human Services:</b>		
Health Centers Cluster	93.224, 93.527	\$ 3,840,137
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918	662,400
Passed through North Carolina Department of Health and Human Services:		
<u>Division of Public Health</u>		
HIV Care Formula Grant (Ryan White Part B) (April 1, 2011 - March 31, 2013)	93.917	333,069
Federal Family Planning/Title X Funds (July 1, 2011 - June 30, 2012)	93.217	<u>40,000</u>
Total Department of Health and Human Services		4,875,606
<b>U.S. Department of Housing and Urban Development:</b>		
Passed through North Carolina Department of Health and Human Services:		
Federal Housing Opportunities for Persons with AIDs Funds (June 1, 2011 - May 30, 2013)	14.241	<u>92,580</u>
Total Federal Awards		<u>4,968,186</u>
<i>State Awards:</i>		
<b>North Carolina Department of Health and Human Services:</b>		
<u>Office of Rural Health and Community Care</u>		
North Carolina Farmworker Health Program - Dental Health Grant (July 1, 2011 - June 30, 2012)	00025621	27,500
Large Capital Community Health Grant (February 1, 2009 – January 31, 2010)	**	21,138
Community Health Grant Funds (July 1, 2004 – June 30, 2005)	**	<u>69,713</u>
Total State Awards		<u>118,351</u>
Total Federal and State Awards		<u>\$ 5,086,537</u>

\*\* Contract number not provided

**CAROLINA FAMILY HEALTH CENTERS, INC.**

Note to Schedule of Expenditures of Federal and State Awards

For the Year Ended June 30, 2012

**Note 1. Basis of Presentation**

The accompanying schedule of expenditures of federal and state awards includes the federal and state grant activity of Carolina Family Health Centers, Inc. and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

**CAROLINA FAMILY HEALTH CENTERS, INC.**

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2012

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**Section I--Summary of Auditors' Results**

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Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? \_\_\_\_\_ yes  X  no
  - Significant deficiency(ies) identified that are not considered to be material weaknesses? \_\_\_\_\_ yes  X  none reported
- Noncompliance material to financial statements noted? \_\_\_\_\_ yes  X  no

Federal Awards

Internal control over major federal program:

- Material weakness(es) identified? \_\_\_\_\_ yes  X  no
  - Significant deficiency(ies) identified that are not considered to be material weaknesses? \_\_\_\_\_ yes  X  none reported
- Noncompliance material to federal awards \_\_\_\_\_ yes  X  no

Type of auditors' report issued on compliance for major program: Unqualified

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

**CAROLINA FAMILY HEALTH CENTERS, INC.**  
Schedule of Findings and Questioned Costs, continued  
For the Year Ended June 30, 2012

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**Section I--Summary of Auditors' Results, Continued**

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Identification of major federal programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
93.224 & 93.527	Health Centers Cluster

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

Auditee qualified as low-risk auditee?        X   yes                               no

**CAROLINA FAMILY HEALTH CENTERS, INC.**  
Schedule of Findings and Questioned Costs, continued  
For the Year Ended June 30, 2012

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**Section II—Financial Statement Findings**

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No matters are reportable.

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**Section III—Federal Award Findings and Questioned Costs**

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No matters are reportable.

**CAROLINA FAMILY HEALTH CENTERS, INC.**

Summary of Prior Year Audit Findings

For the Year Ended June 30, 2012

***2011-1: Financial Reporting***

**Summary:** The payroll accrual was materially incorrect at year end.

**Status:** Full corrective action has been taken.