

LINCOLN COMMUNITY HEALTH CENTER, INC.

Durham, North Carolina

Financial Statements

For the Years Ended
June 30, 2012 and 2011

Together with Auditor's Report and
Supplementary Information

Report Date: September 6, 2012

LINCOLN COMMUNITY HEALTH CENTER, INC.
TABLE OF CONTENTS

	<u>Page</u>
TRANSMITTAL LETTER	1
Part I - Introduction	
Background	2
Scope of Audit	2
Part II - Financial	
Independent Auditor's Report	3
Financial Statements	
Statements of Financial Position	5
Statements of Operations	6
Statements of Changes in Net Assets	8
Statements of Cash Flows	9
Notes to Financial Statements	10
Supplementary Information	
Schedule I - Schedule of Expenditures of Federal Awards	26
Note to Schedule of Expendi- tures of Federal Awards	28
Schedule II - Schedule of Expenditures of State Awards	29
Schedule III - Schedule of Findings and Questioned Costs	30
Part III - Independent Auditor's Reports on Internal Control and Compliance	
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	36
Independent Auditor's Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133	38
Part IV - Exit Conference	41
Corrective Action Plan	42
Summary Schedule of Prior Audit Findings	44



**Simmons, Richey
& Company, P.C.**
Certified Public Accountants

September 6, 2012

Lincoln Community Health Center, Inc.
P. O. Box 52119
1301 Fayetteville Street
Durham, NC 27717-2119

We have completed our audit of the financial statements of Lincoln Community Health Center, Inc., for the year ended June 30, 2012. The financial statements together with our auditor's report and supplementary information are contained herein.

We appreciate the courtesies extended to us during the audit and the assistance provided by the staff of Lincoln Community Health Center, Inc.

Respectfully,

SIMMONS, RICHEY & COMPANY, P.C.



Lewis J. Simmons, CPA

PART I - INTRODUCTION

PART I - INTRODUCTION

BACKGROUND

Lincoln Community Health Center, Inc. (the "Center"), operates community medical and dental clinics. The Center provides comprehensive out-patient health services in Durham, North Carolina. The Center is a not-for-profit corporation incorporated in May 1972 under the laws of the state of North Carolina. For federal funding purposes, June 30 has been designated the Center's fiscal year-end.

For the year ended June 30, 2012, the Center received Federal grant awards from the U. S. Department of Health and Human Services (DHHS) totaling \$5,019,783, including \$116,508 pass-through awards, and awards from the U. S. Department of Agriculture of \$1,582,087, passed through the North Carolina Department of Health and Human Services.

SCOPE OF AUDIT

Our audit of the Center was performed in accordance with auditing standards generally accepted in the United States of America, the financial and compliance elements of the *Government Auditing Standards* issued by the Comptroller General of the United States and the provisions of Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. The audit covered the period July 1, 2011 through June 30, 2012 and field work was completed on August 24, 2012.

PART II - FINANCIAL

FINANCIAL STATEMENTS



**Simmons, Richey
& Company, P.C.**
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Lincoln Community Health Center, Inc.

We have audited the accompanying statements of financial position of Lincoln Community Health Center, Inc. (a nonprofit organization), as of June 30, 2012 and 2011 and the related statements of operations, changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Lincoln Community Health Center, Inc.'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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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 Lincoln Community Health Center, Inc., as of June 30, 2012 and 2011 and the results of its operations, 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 6, 2012 on our consideration of Lincoln Community Health Center, Inc.'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an

To the Board of Directors
Page 2

opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and important for assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements. The accompanying schedules of expenditures of federal awards, state awards and other supplementary information are 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 are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic 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. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Simmons, Richey & Company, P.C.

Lithonia, Georgia
September 6, 2012

LINCOLN COMMUNITY HEALTH CENTER, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 719,488	\$ 1,265,239
Short-term investments	326,310	323,869
Grants receivable	449,854	454,458
Accounts receivable, less allowances for doubtful accounts and contractual adjustments of \$771,827 and \$691,533, respectively	496,526	543,437
Estimated retroactive adjustments Receivables	434,653	310,234
Other receivables	315,718	80,180
Inventory	335,808	396,615
Deposits and prepaid expenses	<u>221,548</u>	<u>94,410</u>
Total Current Assets	3,299,905	3,468,442
PROPERTY AND EQUIPMENT AT COST, NET	<u>2,130,057</u>	<u>1,199,723</u>
TOTAL ASSETS	<u>\$ 5,429,962</u>	<u>\$ 4,668,165</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 958,210	\$ 694,486
Estimated retroactive adjustments third-party payors	-	3,958
Accrued expenses	313,709	316,704
Accrued vacation	373,609	343,871
Deferred grant revenue	<u>215,497</u>	<u>310,699</u>
Total Current Liabilities	<u>1,861,025</u>	<u>1,669,718</u>
NET ASSETS		
Unrestricted	2,976,500	2,279,592
Temporarily restricted	<u>592,437</u>	<u>718,855</u>
Total Net Assets	<u>3,568,937</u>	<u>2,998,447</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 5,429,962</u>	<u>\$ 4,668,165</u>

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

LINCOLN COMMUNITY HEALTH CENTER, INC.
STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

	2012	2011
UNRESTRICTED REVENUES, OPERATING GAINS AND OTHER SUPPORT		
Net patient service revenue	\$ 6,852,219	\$ 6,870,706
Grant revenue	9,707,383	9,643,447
Donated medical services and facilities	6,715,126	7,307,151
Donated medical supplies	-	38,404
Other revenue	123,184	115,284
Contributions-unrestricted	25,417	20,053
Net assets released from restrictions-- for operations	6,444,169	5,212,238
Total Unrestricted Revenues, Operating Gains, and Other Support	29,867,498	29,207,283
EXPENSES		
Salaries	8,198,707	8,371,159
Payroll taxes	615,292	616,679
Retirement expense	362,154	399,011
Other fringe benefits	1,101,768	1,046,200
Patient care	3,267,531	3,301,586
Donated services and facilities	6,715,126	7,307,151
Donated medical supplies	-	38,404
Donated drugs	6,284,699	5,053,019
Training	12,045	23,395
Travel	100,090	94,463
Professional fees	103,658	100,524
Equipment rental	45,726	93,981
Supplies	546,057	619,898
Contractual	280,550	343,337
Provision for bad debt	1,232,852	998,609
Printing and copying	46,739	41,422
Occupancy	112,984	102,684
Dues and subscriptions	63,324	66,112
Recruitment and retention	19,837	27,952
Repairs and maintenance	358,657	186,845
Telephone	198,915	246,523
Postage and freight	55,026	62,477
Non-capital equipment	82,039	18,955
Insurance	44,798	26,714
Depreciation	228,005	219,407
Miscellaneous expense	50,071	38,027
Hazardous waste disposal	15,420	10,552
Employee morale	10,647	12,931
Sub-recipient award	69,553	-
Scholarship	3,000	1,671
Unallowable contributions	19,034	-
Total Expenses	30,244,304	29,469,688

Statements of Operations
Page 2

	<u>2012</u>	<u>2011</u>
OPERATING LOSS	(376,806)	(262,405)
NON-OPERATING GAINS (LOSSES)		
Loss on disposition of fixed assets	-	(237,397)
Grant revenue--capital acquisitions	1,074,105	231,651
Interest income	<u>6,881</u>	<u>12,353</u>
Total Non-Operating Gains and Losses	<u>1,080,986</u>	<u>6,607</u>
Refund to Grantor	(7,272)	-
Excess (deficit) of revenues, gains, and other support over expenses	<u>696,908</u>	(255,798)
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	<u>\$ 696,908</u>	<u>\$ (255,798)</u>

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

LINCOLN COMMUNITY HEALTH CENTER, INC.
STATEMENTS OF CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

	2012	2011
UNRESTRICTED NET ASSETS		
Operating loss	\$(376,806)	\$(262,405)
Non-operating gains	1,080,986	6,607
Refund to grantor	(7,272)	-
Increase (Decrease) in Unrestricted Net Assets	696,908	(255,798)
TEMPORARILY RESTRICTED NET ASSETS		
Contributions for:		
Pharmacy	6,221,477	5,217,593
Diabetic Testing Supplies	3,500	11,000
Fund Development Officer	-	50,000
Breast Health Education and Screening	72,986	72,094
Board of Directors' Fund Campaign	19,034	-
Prostate Screening	1,000	-
Other Miscellaneous	134	223
Refund to Grantor	(380)	(9,262)
Net assets released from restrictions for operations	(6,444,169)	(5,212,238)
Increase (decrease) in temporarily Restricted net assets	(126,418)	129,410
INCREASE (DECREASE) IN NET ASSETS	570,490	(126,388)
NET ASSETS, BEGINNING OF YEAR	2,998,447	3,124,835
NET ASSETS, END OF YEAR	\$ 3,568,937	\$ 2,998,447

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

LINCOLN COMMUNITY HEALTH CENTER, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 570,490	\$(126,388)
Adjustments to reconcile change in net assets to net cash provided by operating activities and gains:		
Provision for bad debts	1,232,852	998,609
Depreciation	228,005	219,407
Loss on disposition of fixed assets	-	237,397
(Increase) Decrease in:		
Grants receivable	4,604	(122,417)
Accounts receivable	(1,185,942)	(972,501)
Estimated retroactive adjustments receivable	(124,419)	(79,201)
Accounts receivable—other	(235,538)	8,101
Deposits and prepaid expenses	(127,138)	46,519
Inventory	60,807	(163,162)
Increase (Decrease) in:		
Accounts payable	263,724	281,411
Estimated retroactive adjustments payable	(3,958)	(2,284)
Accrued liabilities	(2,995)	65,593
Accrued vacation	29,738	11,918
Deferred grant revenue	(95,202)	89,414
Net Cash Provided by Operating Activities	<u>615,028</u>	<u>492,416</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of short-term investments	(2,441)	(4,327)
Purchases of capital assets	(1,161,621)	(360,680)
Disposal of fixed assets	3,283	-
Net Cash Used by Investing Activities	<u>(1,160,779)</u>	<u>(365,007)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(545,751)	127,409
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>1,265,239</u>	<u>1,137,830</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 719,488</u>	<u>\$ 1,265,239</u>

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

LINCOLN COMMUNITY HEALTH CENTER, INC.
NOTES TO FINANCIAL STATEMENTS

Note 1: Description of the Organization and Summary of Significant Accounting Policies

Organization - Lincoln Community Health Center, Inc. (the "Center"), located in Durham, North Carolina, is a not-for-profit JCAHO accredited primary care facility. The Center provides outpatient services for residents of Durham County. The Center was incorporated in North Carolina in May 1972 and is affiliated with Durham County Hospital Corporation (the "Corporation"), Durham Regional Hospital (the "Hospital") and Duke University Health System (the "System").

Basic Program - The Center is a comprehensive health care facility designed for the health care consumer who wishes to enter a continuity-of-care system that includes, but is not limited to, prevention and maintenance of health care, management of chronic diseases, and hospitalization. At the Center, quality medical care is offered through a comprehensive array of services emphasizing health promotion and disease prevention.

The clinical staff includes pediatricians, internists, specialty physicians, dentists, mid-level practitioners, nurses, family health workers, patient care assistants, nutritionists, pharmacists, dental hygienists, certified clinical social workers, and laboratory, pharmacy and X-ray technicians.

Affiliation - Effective July 1998, the Center, the Corporation, the Hospital and the System entered into an affiliation resulting in the execution of a support agreement (the "Agreement"). The Agreement obligates the System to provide certain health care services and annual grant awards of \$2,100,000 to the Center for twenty years. The System has the option to extend the agreement through September 30, 2031.

Under the terms of the Agreement and over the term of the affiliation, the Corporation is responsible for the following:

- To maintain and repair the physical plant of the Center at the level of repair required, allowing the Center to fulfill its health care mission.

Notes to Financial Statements

Page 2

- To provide contributed services and discounts from gross charges or reasonable costs for certain clinical ancillary services. Clinical services are inclusive of laboratory, x-ray, pharmacy and other miscellaneous ancillary services provided to patients. Other services, including maintenance, environmental and security services are provided at no charge. These services are provided primarily through the Hospital, which the System operates and subleases, from the Corporation.
- To maintain, to the extent permitted under applicable law, its status and responsibility as the primary grant recipient, or any such similar position, with regard to annual grants to the Center under Section 330 of the Public Health Service Act.

Under the terms of the Agreement and over the term of the affiliation, the System is responsible for the following:

- Under the terms of the second amendment to the Agreement, beginning July 1, 2009 the System will contribute \$2,850,000. Beginning on July 1, 2010 and continuing each year throughout the remainder of the Agreement, the amount shall be adjusted for inflation using the Consumer Price Index (CPI).
- The System, through a designated representative, in an advisory capacity, provides guidance in the strategic and planning budgetary process, but has no effective control over the Center's strategic and budgetary planning or the right to approve or disapprove such plans.

In December 1998, the Center amended its Articles of Incorporation, Bylaws, and other applicable corporate documents to provide that one (1) seat on the Center's Board of Directors be filled by an individual nominated by the Corporation and one (1) seat on the Center's Board of Directors be filled by an individual nominated by the System as required by the Agreement.

Contributed Services - The Corporation contributes the use of the facility occupied by the Center. The Corporation subleases the facility from Durham County. The Center recognizes the estimated annual fair value, as determined by the Corporation, of the facility as contributed service and use of facilities revenue and correspondingly records a facility expense to the appropriate department category based on square footage. The Center leases the land on which the facility is located from Durham County for a nominal annual fee of \$1.

The Center receives ancillary services from the Hospital at discounts, cost, or no charge. The estimated fair value of the donated and/or discounted services are recorded as contributed service revenue and charged to the appropriate department expense category.

Contributed services related to operating the Prenatal Program by the Durham County Health Department were approximately \$-0- and \$1,335,092 for 2012 and 2011, respectively. These services consist of environmental services, plant maintenance, power plant, grounds, and security and facility expense. The Program ended in 2011.

Financial Statement Presentation

The financial statement presentation follows the recommendations of the American Institute of Certified Public Accountants' Audit and Accounting Guide, Health Care Organizations.

Basis of Accounting--

The accompanying financial statements are prepared on the accrual basis of accounting.

The Financial statements are presented in accordance with U.S. generally accepted accounting principles. Under U. S. generally accepted accounting principles, the Center is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets, as applicable.

Cash and Cash Equivalents

The Center considers all highly liquid investments available for current use with maturity of three months or less to be cash equivalents.

Short-term Investments

Short-term investments consist of certificates of deposit and a mutual fund consisting of U. S. Treasury securities measured at fair value.

Inventory

The Center capitalizes inventories of medical supplies. Purchased inventory is stated at cost and donated inventory is stated at fair market value based on the donor's wholesale prices.

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect on outstanding balances. Management maintains an allowance for probable uncollectible amounts based on its assessment of the current status of individual accounts. A provision for bad debts is made periodically to adjust the allowance for amounts which have not been collected in a reasonable period of time. Uncollectible balances are written-off through a charge to the valuation allowance and a credit to accounts receivable. All balances which have been outstanding over 30 days are considered delinquent.

Non-Expendable Property

Property acquired is considered owned by the Center. However, the United States Government has a reversionary interest in property purchased with Federal funds or acquired through government appropriations; therefore, its disposition as well as ownership of any proceeds there from is subject to Federal regulations. The Organization capitalizes all non-expendable property acquisitions of \$1,000 or more. Depreciation is provided on the straight-line basis over the estimated useful lives of the assets ranging from three to 35 years.

Revenue

Grants--

The Center recognizes Federal and state grant awards to the extent that allowable grant expenses have been incurred. Federal and state grant funds received prior to incurring allowable grant program expenses are recorded as deferred grant revenue. Deferred grant revenue balance at the grant program ending date is refundable to the Federal or state government or may be carried over to the subsequent grant period at the discretion of the government. Federal, state and local government grants comprise approximately 33% and 32% for 2012 and 2011, respectively, of the total unrestricted revenues, gains and other support.

Third-party Contractual Adjustments--

Retroactively calculated third-party contractual adjustments are accrued on an estimated basis in the period the related services are rendered. Net patient service revenue is adjusted as required in subsequent periods based on interim/final settlements.

Net Patient Service Revenue--

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

Other Revenue--

Other revenue results from various health center program services and activities. These amounts were used primarily to meet the funding source matching or cost sharing requirements. Subject to the provisions of grant agreements, revenues realized in excess of the required matching or cost sharing amount may be utilized to absorb program costs currently or may be carried over to subsequent grant periods.

Charity Care--

The Center has a policy of providing charity care to patients who are unable to pay. Such patients are identified and related charges are estimated, based on financial information obtained from the patient and subsequent analysis. Since management does not expect payment for charity care, the estimated charges are excluded from revenue.

Contributions

The Center accounts for contributions received and contributions made in accordance with U. S. generally accepted accounting principles. Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions.

Under U. S. generally accepted accounting principles, temporarily restricted support is reclassified to unrestricted net assets on expiration or fulfillment of the donor restrictions.

Donated Drugs

The Center participates in a program sponsored by a drug company, which provides drugs to indigent patients. The inventory of donated drugs is replenished periodically by the donor upon receipt of documentation of amounts dispersed. The donated drugs are valued at the donor's wholesale prices. The total contributions received during the years ended June 30, 2012 and 2011 is \$6,221,477 and \$5,217,593, respectively. The amount remaining in inventory at June 30, 2012 and 2011 is \$314,490 and \$377,712, respectively.

Advertising Costs

Advertising costs, consisting primarily of advertisement of employment opportunities and services offered by the Center, are expensed as incurred.

Expense Allocation

Directly definable expenses are charged to programs and supporting services. Expenses related to more than one function are charged to programs and supporting services on the basis of periodic time records, direct salaries and square footage. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Center.

Income from Operations

Income from operations exclude (a) receipt of restricted contributions, including temporary or permanent restrictions, (b) contributions of long-lived assets, and (c) other items required by generally accepted accounting principles to be reported separately.

Funds on Deposit

Funds on deposit are in institutions insured by the Federal government. Deposits at each bank are insured up to a limit of \$250,000 at June 30, 2012 and 2011. Deposits exceeded the FDIC insured limit at June 30, 2012 and 2011 by \$229,790 and \$1,013,654, respectively.

Income Tax Status

The Center qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and, therefore, has no provision for federal or state income taxes. The Center is not a private foundation under Section 170(b)(1)(A)(vi) of the Internal Revenue Code.

On January 1, 2009, the Organization adopted the recognition requirements for uncertain income tax positions as required by generally accepted accounting principles, ASC 740-10, which prescribes how an organization should measure, recognize, present, and disclose uncertain income tax positions taken by an organization. There was no impact to the Organization's financial statements as a result of the implementation of ASC 740-10.

The Organization's open audit periods are the fiscal years ended June 30, 2009 through June 30, 2011.

Estimates

The presentation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the Center to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

Note 2: Estimated Retroactive Adjustments

The Center provides health care services to Medicare and Medicaid patients. Reimbursements for covered services are based on tentative payment rates. Actual reimbursements are determined after the submission of annual cost reports which are audited by the intermediaries. Provision for estimated reimbursement adjustments is reported in the financial statements in the period that the services are provided.

Total estimated retroactive adjustments receivable as of June 30, 2012 and 2011 are \$434,653 and \$310,234, respectively. Total estimated retroactive adjustments payable at June 30, 2012 and 2011 is \$-0- and \$3,958, respectively.

The final settlement may be significantly more or less than the recorded receivable because the Center receives rate adjustments to conform to amounts paid to Community Health Centers that are paid under the Cost Based Prospective Payment System (PPS).

Notes to Financial Statements

Page 8

Note 3: Property and Equipment

Property and equipment consist of the following:

	<u>2012</u>	<u>2011</u>
Leasehold improvements	\$ 2,003,026	\$ 937,708
Computer and video equipment	1,597,516	1,389,821
Office equipment	1,077,141	966,361
Medical equipment	316,318	286,412
Other equipment	1,402,307	1,402,307
Construction in progress	-	255,360
	<u>6,396,308</u>	<u>5,237,969</u>
Less: Accumulated depreciation	<u>(4,266,251)</u>	<u>(4,038,246)</u>
	<u>\$ 2,130,057</u>	<u>\$ 1,199,723</u>

Note 4: Deferred Grant Revenue

Deferred grant revenue consists of the following:

	<u>2012</u>	<u>2011</u>
U. S. Department of Agriculture-- Special Supplemental Nutrition Program for Women, Infants and Children	\$ 131,841	\$ 128,660
State Grants	49,563	114,862
Other	<u>34,093</u>	<u>67,177</u>
	<u>\$ 215,497</u>	<u>\$ 310,699</u>

Note 5: Deposits and Prepaid Expenses

The Organization entered into an agreement with a software vendor to purchase new practice management software and integrate it with existing systems. As of June 30, 2012, the new system has not been fully developed. Payments to the software vendor through June 30, 2012 total \$41,234 and have been recorded as deposits. Refer to Note 15.

Note 6: Leases

The Center acquired various office space and equipment under operating leases.

Rent expense for the years ended June 30, 2012 and 2011 is \$158,710 and \$196,664, respectively.

Notes to Financial Statements

Page 9

Note 6: Leases, Continued

Future minimum lease payments under operating leases are as follows:

<u>Year</u>	<u>Amount</u>
2013	\$ 66,005
2014	<u>13,170</u>
	<u>\$ 79,175</u>

Note 7: Insurance Coverage

The Center has been deemed eligible under the Federally Supported Health Center Assistance Acts of 1992 and 1995. Thus, all providers are covered by the provisions of the Federal Tort Claims Act.

Note 8: Grant Revenue

Grant revenue consists of the following:

	<u>2012</u>	<u>2011</u>
U. S. Department of Health and Human Services--Consolidated Health Center Cluster	\$ 4,349,582	\$ 4,082,146
U. S. Department of Health and Human Services--ARRA Grants to Health Center Programs-CIP	1,045,410	526,552
U. S. Department of Health and Human Services--Affordable Care Act Grants for School-Based Health Centers Capital Program	28,695	-
U. S. Department of Health and Human Services--Out Patient Early Intervention with Respect to HIV Disease	485,856	485,856
U. S. Department of Agriculture--Passed through the N. C. Department of Health and Human Services Division of Public Health--Special Supplemental Nutrition Program for Women, Children and Infants	1,344,722	1,439,397

Notes to Financial Statements
Page 10

Note 8: Grant Revenue, Continued

	<u>2012</u>	<u>2011</u>
U. S. Department of Health and Human Services--Passed through Wake County, North Carolina	102,717	-
U. S. Department of Health and Human Services--Passed through Duke University Health System--Alternate Non-Emergency Service Providers or Networks	-	13,125
U.S. Department of Health and Human Services--Passed through North Carolina Central University--Minority Health and Health Disparities Research	-	61,614
Durham County Hospital Corporation and Durham Regional Hospital	2,684,536	2,446,492
Duke University Hospital System	502,201	501,864
State Government and Others	<u>237,769</u>	<u>318,052</u>
	<u>\$ 10,781,488</u>	<u>\$ 9,875,098</u>

Note 9: Pension Plan

The Center maintains a defined contribution pension plan for substantially all employees. Under the Plan, annuities are purchased for participants. The Center contributes 4% of the employee's salary to the Plan. The Center provides a match of 50% of the employee's contribution up to a maximum of 3%. Employees may also contribute certain amounts to a 403(b) plan as specified in the Plan. Total contributions to the Plans by the Center were \$362,154 and \$399,011 in 2012 and 2011, respectively.

Note 10: Charity Care

The Center has a policy of providing charity care to patients who are unable to pay. These services, which are excluded from revenues, amounted to \$13,429,255 and \$11,139,461 in 2012 and 2011, respectively, when measured at Lincoln Community Health Center, Inc.'s established rates.

Notes to Financial Statements

Page 11

Note 11: Concentration of Credit Risk

The Center grants credit to its patients. A substantial percentage is insured under third-party payor agreements. The percentages of receivables from patients and third-party payors at June 30, 2012 and 2011 were as follows:

	<u>2012</u>	<u>2011</u>
Medicare	29%	32%
Medicaid	23%	26%
Other third-party payors	11%	12%
Patients	<u>37%</u>	<u>30%</u>
	<u>100%</u>	<u>100%</u>

Note 12: Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes:

	<u>2012</u>	<u>2011</u>
Dr. Evelyn Schmidt--		
Scholarships	\$ 10,399	\$ 10,386
Special Projects	15,414	15,414
Diabetic Testing Supplies	6,410	7,499
Susan G. Komen Foundation--		
Breast Health Education and Screening	18,627	35,719
Durham Health Partners--		
Health Education	62,246	62,134
For Pharmacy	336,050	401,091
Bailey D. Webb Estate--		
Pediatrics Department	97,557	123,825
James B. Duke Fund--Administration	27,595	27,595
Duke Endowment--Fund Development Officer	-	14,150
E. L. White--Scholarship	9,187	12,178
Lincoln Hospital School of Nursing--		
Nursing Department	4,239	4,239
Other Miscellaneous	<u>4,713</u>	<u>4,625</u>
Total temporarily restricted net assets	<u>\$ 592,437</u>	<u>\$ 718,855</u>

Notes to Financial Statements

Page 12

Note 12: Temporarily Restricted Net Assets, Continued

Net assets released from restrictions by incurring expenses and capital expenditures satisfying restricted purposes:

	<u>2012</u>	<u>2011</u>
Used for operations:		
Pharmacy	\$ 6,286,518	\$ 5,057,254
Duke Endowment	14,150	79,950
Dr. Evelyn Schmidt	4,589	3,501
Susan G. Komen Foundation	90,079	67,720
Bailey D. Webb Estate	26,267	398
E. L. White Scholarship	3,000	-
Board of Directors' Fund Campaign	19,034	-
Other Miscellaneous	<u>532</u>	<u>3,415</u>
Total Amount Released from Restriction	<u>\$ 6,444,169</u>	<u>\$ 5,212,238</u>

Note 13: Classification of Expenses

Expenses incurred during the years ended June 30, 2012 and 2011, by functional classification, are as follows:

	2012		
	Program Services	General Administrative Expenses	Total
Salaries	\$6,866,649	\$ 1,332,058	\$8,198,707
Payroll taxes	493,269	122,023	615,292
Retirement expenses	292,265	69,889	362,154
Other fringe benefits	913,133	188,636	1,101,768
Patient care	3,252,271	15,260	3,267,531
Donated services and facilities	5,953,276	761,849	6,715,126
Donated Drugs	6,284,699	-	6,284,699
Training	7,434	4,611	12,045
Travel	60,694	39,396	100,090
Professional fees	25,948	77,710	103,658
Equipment rental	18,006	27,720	45,726
Supplies	490,578	55,479	546,057
Contractual	234,399	46,151	280,550
Provision for bad debt	1,232,852	-	1,232,852
Printing and copying	18,525	28,214	46,739
Occupancy	102,341	10,643	112,984
Dues and subscriptions	19,058	44,266	63,324
Recruitment and retention	11,119	8,718	19,837
Repairs and maintenance	335,651	23,006	358,657
Telephone	157,214	41,701	198,915
Postage and freight	37,046	17,980	55,026
Non-Capital equipment	80,797	1,242	82,039
Insurance	8,897	35,902	44,798
Depreciation	166,488	61,516	228,005
Miscellaneous expense	7,634	42,437	50,071
Hazardous waste disposal	13,850	1,570	15,420
Sub-recipient awards	69,553	-	69,553
Scholarships	-	3,000	3,000
Unallowable contributions	-	19,034	19,034
Employee morale	-	10,647	10,647
	<u>\$27,153,646</u>	<u>\$ 3,090,658</u>	<u>\$30,244,304</u>

Notes to Financial Statements

Page 14

Note 13: Classification of Expenses, Continued

	2011		
	Program Services	General	Total
		Administrative Expenses	
Salaries	\$6,635,446	\$1,735,713	\$8,371,159
Payroll taxes	469,242	147,437	616,679
Retirement expenses	308,128	90,883	399,011
Other fringe benefits	775,197	271,003	1,046,200
Patient care	3,301,586	-	3,301,586
Donated services and facilities	7,675,336	631,815	7,307,151
Donated Medical Supplies	38,404	-	38,404
Donated Drugs	5,053,019	-	5,053,019
Training	11,759	11,636	23,395
Travel	69,757	24,706	94,463
Professional fees	20,427	80,097	100,524
Equipment rental	18,985	74,996	93,981
Supplies	492,080	127,818	619,898
Contractual	187,233	156,104	343,337
Provision for bad debt	998,609	-	998,609
Printing and copying	15,743	25,679	41,422
Occupancy	93,456	9,228	102,684
Dues and subscriptions	25,866	40,246	66,112
Recruitment and retention	16,707	11,245	27,952
Repairs and maintenance	130,176	56,669	186,845
Telephone	169,887	76,636	246,523
Postage and freight	50,715	11,762	62,477
Non-Capital equipment	17,507	1,448	18,955
Insurance	21,176	5,538	26,714
Depreciation	113,388	106,019	219,407
Miscellaneous expense	7,156	30,871	38,027
Hazardous waste disposal	10,552	-	10,552
Scholarships	-	1,671	1,671
Employee morale	378	12,553	12,931
	<u>\$25,727,915</u>	<u>\$3,741,773</u>	<u>\$29,469,688</u>

Notes to Financial Statements

Page 15

Note 14: Affiliate Transactions

During the years ended June 30, 2012 and 2011, the Center purchased services from the Hospital totaling approximately \$5,003,024 and \$4,711,129, respectively. Amounts owed for these services were approximately \$455,931 and \$265,736 at June 30, 2012 and 2011, respectively. During the years ended June 30, 2012 and 2011, the Center purchased services from the System totaling approximately \$798,667 and \$957,574, respectively. The amount payable to the System at June 30, 2012 and 2011 is \$-0- and \$71,331, respectively.

In 2012 and 2011, per the agreement, the System provided \$2,885,153 and \$2,838,600, respectively, in grant revenue to the Center (see Note 1).

In 2012 and 2011, per the agreement, the Center received contributed services and supplies from the following entities (see Note 1):

	<u>2011</u>	<u>2010</u>
Durham County Hospital Corporation and Durham Regional Hospital	\$ 6,479,619	\$ 5,785,390
Durham County	-	1,335,092
Duke University Health System	<u>123,690</u>	<u>131,249</u>
	<u>\$ 6,603,309</u>	<u>\$ 7,251,731</u>

Note 15: Commitments and Contingencies

The Center reimburses Durham County, North Carolina, the owner of the main site, for renovation costs incurred, including architectural engineering fees and construction costs related to a renovation project which is funded by the U. S. Department of Health and Human Services. As of June 30, 2012 and 2011, Durham County has executed contracts for the renovation work at the Center. Total outstanding commitment to Durham County, North Carolina at June 30, 2012 and 2011 is as follows:

	<u>As of June 30, 2012</u>	<u>As of June30, 2011</u>
Total contracts	\$ -	\$ 879,666
Cost incurred to date	<u>-</u>	<u>(243,243)</u>
Outstanding commitment	<u>\$ -</u>	<u>\$ 636,423</u>

The renovation project is funded by a U. S. Department of Health and Human Services, ARRA-Grant to Health Center Programs, Capital Improvement Program grant of \$1,300,770.

Notes to Financial Statements

Page 16

Note 15: Commitments and Contingencies, Continued

The Organization entered into an agreement on February 28, 2012 to acquire new practice software and integrate it with existing systems. The total investment price for the software and professional services to implement the new system is \$86,200. As of June 30, 2012, the new system has not been fully implemented. Refer to Note 5.

Total investment price	\$ 86,200
Total paid to date	<u>41,234</u>
Commitment remaining on installation as of June 30, 2012	<u>\$ 44,966</u>

Once the new system is fully implemented, annual support costs of \$30,450 will be incurred.

On December 21, 2011, the Organization executed a lease agreement for the acquisition of telephone equipment to enable voice over internet capability. As of June 30, 2012, the equipment has not been delivered. The lease agreement provides for the acquisition of equipment costing \$134,272, due and payable in equal monthly installments of \$4,183 over 36 months.

Financial awards from Federal, State and local governmental entities are subject to special compliance requirements audit. No provision has been made in the financial statements for any liability that may arise from such audit. Also, no provision has been made in the financial statements for any potential disallowance resulting from noncompliance because the amount, if any, cannot be determined at this date.

Note 16: Subsequent Events

There have been no known significant subsequent events. An evaluation of subsequent events was performed through September 6, 2012, the date of the financial statements.

SUPPLEMENTARY INFORMATION

LINCOLN COMMUNITY HEALTH CENTER, INC.
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED JUNE 30, 2012

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Grant/ Pass-through Grant Number</u>	<u>Expenditures</u>
<u>Major Programs</u>			
<u>Department of Health and Human Services</u>			
Direct Programs:			
Community Health Centers	93.224	6H80CS00477-10-01	\$ 2,204,576
		6H80CS00477-11-01	<u>214,333</u>
			<u>2,418,909</u>
	93.527	6H80CS00477-10-01	1,680,338
		6H80CS00477-11-01	<u>137,032</u>
			<u>1,817,370</u>
Health Care for the Homeless	93.224	6H80CS00477-10-01	58,886
		6H80CS00477-11-01	<u>5,746</u>
			<u>64,632</u>
	93.527	6H80CS00477-10-01	44,997
		6H80CS00477-11-01	<u>3,674</u>
			<u>48,671</u>
Total Consolidated Health Centers Cluster			4,349,582
ARRA-Grants to Health Center Programs			
CIP	93.703	6C81CS13597-01-04	<u>1,045,410</u>
Total Major Programs			<u>5,394,992</u>

Schedule of Expenditures of Federal Awards
Page 2

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Grant/ Pass-through Grant Number</u>	<u>Expenditures</u>
<u>Other Federal Assistance</u>			
<u>Department of Health and Human Services</u>			
Direct Programs:			
Affordable Care Act (ACA) Grants for School-Based Health Center Capital Expenditures	93.501	1C12CS21883-01-00	<u>28,695</u>
Outpatient Early Inter- vention with Respect to HIV Disease	93.918	5H76HA00093-20-01	<u>485,856</u>
Passed through Wake County, North Carolina-- HIV Care Formula Grants	93.917	Unknown	<u>102,717</u>
<u>Department of Agriculture</u>			
Passed through North Carolina Department of Health and Human Services/Division of Public Health:			
Special Supplemental Nutri- tion Program for Women, Infants and Children	10.557	00621-12	1,013,480
		00621-11	<u>331,242</u>
			<u>1,344,722</u>
Total Other Federal Assistance			<u>1,961,990</u>
Total			<u>\$ 7,356,982</u>

LINCOLN COMMUNITY HEALTH CENTER, INC.
NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012

Note 1: The accompanying Schedule of Expenditures of Federal Awards includes the federal activity of Lincoln Community Health Center, Inc., and is presented on the modified accrual basis of accounting. Certain capital expenditures are included in the schedule of expenditures of federal awards and non-cash expenses, such as depreciation, in-kind expenses, and provision for bad debts, are excluded therefrom. 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," and the grantor agency.

SCHEDULE II

LINCOLN COMMUNITY HEALTH CENTER, INC.
 SCHEDULE OF EXPENDITURES OF STATE AWARDS
 FOR THE YEAR ENDED JUNE 30, 2012

<u>Grantor/Program Title</u>	<u>Grant/ Contract Number</u>	<u>Expenditures</u>
North Carolina Department of Health and Human Services:		
Office of Rural Health and Community Care - Community Health Grant (Note 1)	90009940	\$ <u>109,256</u>

Note 1: Total expenditures of state awards includes awards expended by subrecipient(s) as follows:

<u>Subrecipient</u>	<u>Grant Number</u>	<u>Amount</u>
Housing for New Hope	90009940	\$ <u>69,553</u>

LINCOLN COMMUNITY HEALTH CENTER, INC.
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 FOR THE YEAR ENDED JUNE 30, 2012

A. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: *Unqualified*

Internal control over financial reporting:

--Material weakness(es) identified? yes no

--Significant deficiencies identified
 that are not considered to be
 material weaknesses? yes none reported

Noncompliance material to financial
 statements noted? yes no

Federal Awards

Internal control over major programs:

--Material weakness(es) identified? yes no

--Significant deficiencies identified
 that are not considered to be
 material weaknesses? yes none reported

Type of auditor's 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 no

Identification of major programs:

<i>CFDA Number</i>	<i>Name of Federal Program or Cluster</i>
93.224	Consolidated Health Centers --Community Health Centers --Health Care for the Homeless
93.527	Affordable Care Act (ACA) Grants for New and Expanded Services Under the Health Centers Program
93.703	ARRA-Grants to Health Center Programs-CIP

Schedule of Findings and Questioned Costs

Page 2

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

Auditee qualified as low-risk
auditee? X yes no

B. FINDINGS - FINANCIAL STATEMENT AUDIT

SIGNIFICANT DEFICIENCIES

2012-B1 Payroll Allocations

Condition: Some employee salaries are being allocated to various departments and/or grants. However, the time expended is not documented or allocated on employee time sheets. See finding 2012-C1 for a detailed explanation of this finding.

2012-B2 Property Ledger Maintenance

Condition: During the current and prior year audits, we noted that the general ledger fixed asset balances do not reconcile to the detail property ledger balances. Multiple asset purchases, other than items treated as a component asset, were recorded in the property records as a single asset. Also, we noted that five assets purchased during the year were not included in the detailed property records. Some fixed asset additions were duplicated in the detail property records. See finding 2012-C3 for a detailed explanation of this finding.

Schedule of Findings and Questioned Costs

Page 3

C. FINDINGS AND QUESTIONED COSTS--MAJOR FEDERAL AWARD PROGRAMS AUDIT

Questioned
Costs

U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

SIGNIFICANT DEFICIENCIES

2012-C1

Community Health Centers Program; Health Care for the Homeless Program; Affordable Care Act (ACA) Grants for New and Expanded Services Under the Health Centers Program; CFDA Nos. 93.224 and 93.527; Grant Nos. 6H80CS00477-10-01 and 6H80CS00477-11-01; Year Ended June 30, 2012

Condition: Some employee salaries are being allocated to various departments and/or grants. However, the time expended is not documented or allocated on employee time sheets.

\$ -

Criteria: OMB Circular A-133 Compliance Supplement, Allowable Costs/Cost Principles Requirement.

Effect: Failure to maintain after-the-fact documentation of time expended could result in improper allocation of personnel costs and potential disallowance of costs for grant participation.

Cause: Employees are not required to record time by department or grant program.

Recommendation: We recommend that timekeeping records and procedures are modified to record time expended by department and grant program.

Views of Responsible Management Officials:
Management concurs with this finding.

Schedule of Findings and Questioned Costs

Page 4

Questioned
Costs

2012-C2

Community Health Centers Program; Health Care for the Homeless Program; Affordable Care Act (ACA) Grants for New and Expanded Services Under the Health Centers Program; CFDA Nos. 93.224 and 93.527; Grant Nos. 6H80CS00477-10-01 and 6H80CS00477-11-01; Year Ended June 30, 2012

Condition: We selected a random sample of 17 patient accounts receivable, including 12 sliding fee scale accounts, for testing. The following exceptions were noted during our test:

	<u>Number of Exceptions</u>
Account balance is incorrect	2
No proof of income	2
Household income is computed incorrectly	3
Sliding fee status is incorrect	1

Criteria: OMB Circular A-133 Compliance Supplement, Program Income Requirement.

Effects: Errors in recording billing and receivable transactions result in over or under collection for services. Sliding fee scale eligibility determination and documentation errors could result in the improper provision or denial of benefits to patients.

Cause: The account balance errors were caused by improper application of adjustments. The sliding fee scale income calculation errors were caused by personnel errors in converting periodic income into monthly or annual income. The inadequate documentation of income may have resulted from misunderstanding of or inadequate instructions as to what documentation of income is required.

Schedule of Findings and Questioned Costs

Page 5

Questioned
Costs

Recommendation: We recommend that the personnel responsible for sliding fee scale eligibility determination are provided additional training on the calculation of household income and the adequacy of proof of such income. Management should conduct periodic audits of accounts to ensure that adjustments are being properly applied.

Views of Responsible Management Officials:

Management concurs with this finding.

2012-C3

Community Health Centers Program; Health Care for the Homeless Program; Affordable Care Act (ACA) Grants for New and Expanded Services Under the Health Centers Program; CFDA Nos. 93.224 and 93.527; Grant Nos. 6H80CS00477-10-01 and 6H80CS00477-11-01; Year Ended June 30, 2012

Condition: During the current and prior year audits, we noted that the general ledger fixed asset balances do not reconcile to the detail property ledger balances. Multiple asset purchases, other than items treated as a component asset, were recorded in the property records as a single asset. Also, we noted that five assets purchased during the year were not included in the detailed property records. Some fixed asset additions were duplicated in the detail property records.

Criteria: OMB Circular A-110, Section 21, Standards for Financial Management Systems and OMB Circular A-133, Compliance Supplement, Equipment and Real Property Management.

Effect: Failure to reconcile detail property records to the general ledger may result in depreciation errors. Inadequate information or description of assets in the detail property records makes the reconciliation of property physical inventory to the detail property records more difficult.

Schedule of Findings and Questioned Costs

Page 6

Questioned
Costs

Cause: The detailed property ledger is not interfaced with the general ledger. When transactions are recorded in the general ledger, all items were not simultaneously updated in the detailed property ledger.

Recommendation: The detail property ledger should be reconciled to the general ledger monthly. Further, if possible, the detail property ledger should be interfaced with the general ledger.

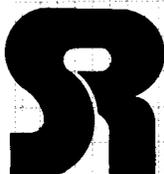
Views of Responsible Management Officials:

Management concurs with this finding.

Total Questioned Costs

-
\$ -

**PART III - INDEPENDENT AUDITOR'S REPORTS ON INTERNAL
CONTROL AND COMPLIANCE**



**Simmons, Richey
& Company, P.C.**
Certified Public Accountants

**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**

To the Board of Directors of
Lincoln Community Health Center, Inc.

We have audited the financial statements of Lincoln Community Health Center, Inc. (a nonprofit organization) as of and for the year ended June 30, 2012, and have issued our report thereon dated September 6, 2012. We conducted our audit 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

In planning and performing our audit, we considered Lincoln Community Health Center, Inc.'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 Lincoln Community Health Center, Inc.'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization'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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of control 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.

Our consideration of the internal control over financial reporting 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 financial reporting 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. However, we identified certain deficiencies in internal

To the Board of Directors
Page 2

control over financial reporting described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies in internal control over financial reporting. See findings 2012-B1 and 2012-B2. A significant deficiency is a deficiency, or combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Lincoln Community Health Center, Inc.'s financial statements are free of material misstatements, 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*.

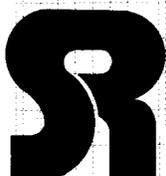
We noted certain other matters that we reported to management of Lincoln Community Health Center, Inc. in a separate letter dated September 6, 2012.

Lincoln Community Health Center, Inc.'s response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit Lincoln Community Health Center, Inc.'s responses and, accordingly, we express no opinion on it.

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

Simmons, Richey & Company, P.C.

Lithonia, Georgia
September 6, 2012



**Simmons, Richey
& Company, P.C.**
Certified Public Accountants

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH
REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL
EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Board of Directors of
Lincoln Community Health Center, Inc.

Compliance

We have audited Lincoln Community Health Center, Inc.'s compliance 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 Lincoln Community Health Center, Inc.'s major federal programs for the year ended June 30, 2012. Lincoln Community Health Center, Inc.'s major federal programs are identified in the summary of auditor's 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 Lincoln Community Health Center, Inc.'s management. Our responsibility is to express an opinion on Lincoln Community Health Center, Inc.'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 Lincoln Community Health Center, Inc.'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 Lincoln Community Health Center, Inc.'s compliance with those requirements.

In our opinion, Lincoln Community Health Center, Inc. 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.

Internal Control Over compliance

Management of Lincoln Community Health Center, Inc. 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 Lincoln Community Health Center, Inc.'s internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our 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 Lincoln Community Health Center, Inc.'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 was not designed to 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. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying schedule of findings and questioned costs as findings 2012-C1 through 2012-C3. A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

To the Board of Directors
Page 3

Lincoln Community Health Center, Inc.'s responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit Lincoln Community Health Center, Inc.'s responses and, accordingly, we express no opinion on the responses.

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

Simmons, Richey & Company, P.C.

Lithonia, Georgia
September 6, 2012

EXIT CONFERENCE

On September 17, 2012, an exit conference was conducted with the Organization's chief financial officer to discuss the findings resulting from our audit. Participants in the exit conference were:

Organization Personnel

Chief Executive Officer
Chief Financial Officer
Business Office Manager
Supervisor of Patient Accounts
Accountant

Auditors

Partner

Topics Discussed:

- 1) Results of our audit, including tentative findings, if any.
- 2) Items needed to complete the audit.
- 3) Requirement for submission of the audit package to the Federal Clearinghouse.

See the reports on internal control and compliance and the Schedule of Findings and Questioned Costs for a summary of the results of our audit.



Lincoln Community Health Center, Inc.

1301 Fayetteville Street • P.O. Box 52119 • Durham, North Carolina 27717-2119
(919) 958-4000 • www.lincolnchc.org

CORRECTIVE ACTION PLAN

October 2, 2012

Lincoln Community Health Center respectfully submits the following corrective action plan for the year ended June 30, 2012 to:

Simmons, Richey & Company, P.C.
Certified Public Accountants
6760 Old Covington Road
Lithonia, Georgia 30058

Audit period: The Years Ended June 2012 and 2011.

The findings from the September 6, 2012 schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

FINDINGS – FINANCIAL STATEMENT AUDIT

SIGNIFICANT DEFICIENCIES

2012-B1 Payroll Allocations

See finding 2012-C1 for recommendation and action plan

2012-B2 Property Ledger Maintenance

See finding 2012-C3 for recommendation and action plan

FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAM AUDIT

SIGNIFICANT DEFICIENCIES

Community Health Centers Program; Health Care for the Homeless; Affordable Care Act (ACA) Grants for New and Expanded Services under the Health Centers Program; CFDA Nos. 93224 and 93.527; Grant Nos. 6H80CS00477-10-01 and 6H80CS00477-11-01; Year Ended June 30, 2012.

2012-C1

Recommendation: We recommend that timekeeping records and procedures are modified to record time expended by department and grant program.

Action Taken: Management concurs with the recommendation and will modify procedures to require that time records reflect time expended to the appropriate department and grant program. The time will be posted directly into the time and attendance module of ADP as payroll time sheets are completed.

The payroll staff will work closely with Department Heads and Supervisors to make sure that this is done on a bi-weekly basis. Posted data will be audited prior to submitting the payroll for processing.

2012-C2

Recommendation: We recommend that the personnel responsible for sliding scale eligibility determination are provided additional training on the calculation of household income and the adequacy of proof of such income. Management should conduct periodic audits of accounts to ensure that adjustments are being properly applied.

Action Taken: Management concurs with the recommendation and will schedule training on the overall sliding scale policy application. Training will include how to calculate and verify household income and enter the same into the practice management system. Competency assessments will be completed to ensure that staff fully understands requirements. The Supervisor of Patient Accounts and Patient Services will conduct monthly audits to ensure that compliance with the sliding scale policy is maintained.

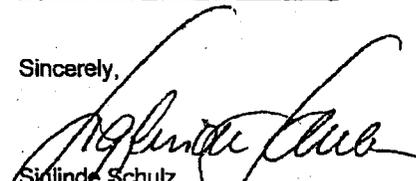
2012-C3

Recommendation: The detail property ledger should be reconciled to the general ledger monthly. Further, if possible, the detail property ledger should be interfaced with the general ledger.

Action Taken: Management concurs with the recommendation and will reconcile the detail property ledger to the general ledger on a monthly basis. We will also pursue having the property ledger interfaced with the general ledger by June 2013.

If Simmons, Richey & Company, P.C. has questions regarding this plan, please email me at siglinda.schutz@lincolnchc.org or call me at 919-956-4015.

Sincerely,



Siglinda Schulz
Chief Financial Officer

LINCOLN COMMUNITY HEALTH CENTER, INC.
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2012

NONE.

LINCOLN COMMUNITY HEALTH CENTER, INC.

MANAGEMENT LETTER

JUNE 30, 2012



**Simmons, Richey
& Company, P.C.**
Certified Public Accountants

To the Senior Management and
The Board of Directors of
Lincoln Community Health Center, Inc.

In planning and performing our audit of the financial statements of Lincoln Community Health Center, Inc. for the year ended June 30, 2012 in accordance with auditing standards generally accepted in the United States of America, we considered the Organization's internal control over financial reporting (internal control) 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 organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

However, during our audit, we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. This letter summarizes our comments and suggestions regarding those matters. (We previously reported on the Organization's internal control in our letter dated September 6, 2012.) This letter does not affect our report dated September 6, 2012 on the financial statements of Lincoln Community Health Center, Inc.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggesting with various Organization personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations. Our comments are summarized as follows:

Purchasing Policies

During our examination of additions to property and equipment, we noted an instance where computer equipment costing more than \$25,000 was not supported by competitive bids. Also, we noted that purchasing policies and procedures do not state the approval hierarch for specified amounts.

The Organization's policy requires that all procurement of goods or services over \$25,000 must receive at least competitive bids and that competitive bids must be in writing.

In some instances, the Organization may not be acquiring goods and services at the most competitive prices.

Management indicated the vendor from whom the equipment was acquired was used because (1) the vendor is familiar with the existing equipment and software systems, and (2) it would not be cost effective to change.

Recommendation

We recommend that the Board of Directors establish policies and management implement procedures which include (1) the hierarch of approval for purchases, (2) the number of competitive bids solicited, and (3) documentation of the selection process, especially when the lowest bid is not selected.

Accounts Receivable - Other

During our audit of receivables, we noted that there were numerous travel advances that have been outstanding for an unusual period of time. Some travel advances have been outstanding since August 2010. Several other non-patient related receivable accounts contained amounts that were not adequately described or were outstanding for an unusually long period.

The Organization's travel and personnel policies and procedures state that all travel advances must be cleared by one week after completion of the travel.

Failure to clear outstanding travel advances could result in lost funds from non-payment and violation of Internal Revenue Service regulations regarding accountable travel plans. Failure to identify and properly dispose of other receivable balances could result in misstatement of receivable, support, and revenue.

It appears that the failure to dispose of outstanding travel advances and other receivables in a timely manner is due, in part, to personnel constraints.

Recommendation

We recommend that the Chief Financial Officer implement procedures which require the reconciliation of receivable detail records to the general ledger monthly. All travel advances should be cleared as provided by established policies.

Page 3

We wish to thank the Chief Financial Officer and senior management for their support and assistance during our audit.

This report is intended solely for the information and use of the management, the Board of Directors, and others within the Organization and is not intended to be and should not be used by anyone other than these specified parties.

Simmons, Richey & Company, P.C.

Lithonia, Georgia
September 6, 2012