

Lincoln Community Health Center, Inc.

Financial Statements

For the Fiscal Years Ended June 30, 2014 and 2013

Lincoln Community Health Center, Inc.

Financial Statements

For the Fiscal Years Ended June 30, 2014 and 2013

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Lincoln Community Health Center, Inc.
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Independent Auditor's Report

Board of Directors
Lincoln Community Health Center, Inc.
Durham, North Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of Lincoln Community Health Center, Inc. (a non-profit organization), which are comprised of the balance sheets as of June 30, 2014 and 2013, and the related statements of operations, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Lincoln Community Health Center, Inc. at June 30, 2014 and 2013, and the results of its activities and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying detailed schedules of functional expenses, as well as the accompanying Schedule of Expenditures of Federal Awards as required by the U.S. Office of Management and Budget Circular A-133, are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Requirements by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated July 31, 2014, 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, and grant agreements. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Lincoln Community Health Center, Inc.'s internal control over financial reporting and compliance.



Lumberton, North Carolina
September 30, 2014

Lincoln Community Health Center, Inc.

Balance Sheets

June 30, 2014 and 2013

<u>Assets</u>	<u>2014</u>	<u>2013</u>
Current assets		
Cash and cash equivalents	\$ 1,638,280	\$ 1,547,713
Patient-related accounts receivable		
Medicaid/Medicare	324,386	441,246
Private (including sliding fee)	1,024,055	995,666
	<u>1,348,441</u>	<u>1,436,912</u>
Less - allowance for uncollectible accounts	980,387	983,873
	<u>368,054</u>	<u>453,039</u>
Other receivables		
Medicaid/Medicare cost reimbursements	380,408	329,998
Grants	750,074	468,712
Other	135,046	134,356
Inventory	46,522	437,711
Prepaid expenses	188,599	116,741
	<u>188,599</u>	<u>116,741</u>
Total current assets	<u>3,506,983</u>	<u>3,488,270</u>
Investments	<u>-</u>	<u>5,000</u>
Property and equipment		
Leasehold improvements	2,003,025	2,003,025
Medical Equipment	367,638	355,654
Equipment - computer related	1,961,308	1,910,192
Office equipment	1,095,273	1,095,273
Other equipment	1,402,307	1,402,307
	<u>6,829,551</u>	<u>6,766,451</u>
Less - accumulated depreciation	4,913,543	4,543,918
	<u>4,913,543</u>	<u>4,543,918</u>
Property and equipment - net	<u>1,916,008</u>	<u>2,222,534</u>
Total assets	<u>\$ 5,422,991</u>	<u>\$ 5,715,804</u>
Liabilities and Net Assets		
Current liabilities		
Accounts payable and accrued expenses	\$ 404,275	\$ 580,434
Current portion of capital lease obligations	28,304	43,486
Accrued payroll	378,604	451,300
Accrued vacation	354,941	351,764
Deferred grant revenue	-	150,940
	<u>-</u>	<u>150,940</u>
Total current liabilities	<u>1,166,124</u>	<u>1,577,924</u>
Long-term debt, including long-term capital leases	<u>56,770</u>	<u>86,240</u>
Total liabilities	<u>1,222,894</u>	<u>1,664,164</u>
Net assets - unrestricted	<u>4,200,097</u>	<u>4,051,640</u>
Total liabilities and net assets	<u>\$ 5,422,991</u>	<u>\$ 5,715,804</u>

The accompanying notes are an integral part of these financial statements

Lincoln Community Health Center, Inc.
Statements of Operations
For the Fiscal Years Ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Support and revenue		
Grant support	\$ 10,434,137	\$ 9,947,329
Donated medical services and facilities	7,588,659	7,480,313
Donated pharmaceuticals	1,395,831	7,249,203
Contracted services	5,725	-
Interest	4,510	4,655
Other	341,138	263,339
Net patient service revenue		
Private (including sliding fee)	\$ 16,327,605	15,728,061
Medicaid	4,710,486	4,710,577
Medicare	2,671,940	2,638,393
	<u>23,710,031</u>	<u>23,077,031</u>
Less - disallowances and adjustments	(14,639,455)	(14,651,014)
Less - provision for bad debts	(2,304,745)	(1,791,944)
	<u>6,765,831</u>	<u>6,634,073</u>
Total support and revenue	<u>26,535,831</u>	<u>31,578,912</u>
Expenses		
Salaries and wages	8,927,906	8,713,442
Payroll taxes	699,034	646,828
Retirement expenses	421,117	401,329
Fringe benefits	1,158,463	1,090,954
Contracted services - medical	3,110,119	3,161,441
Donated services and facilities	7,588,659	7,480,313
Donated pharmaceuticals	1,783,698	7,179,466
Supplies	486,287	456,778
Travel	130,525	130,486
Depreciation	337,935	277,667
Professional fees	102,410	106,781
Contracted services - other	253,571	242,139
Occupancy	114,238	111,014
Dues and subscriptions	54,577	94,058
Insurance	46,629	24,117
Interest	5,250	821
Telephone	380,142	263,951
Repairs and maintenance	313,161	326,651
Training and continuing education	42,822	11,403
Postage and freight	61,998	58,173
Recruiting and retention	36,378	44,227
Publications and miscellaneous supplies	98,087	53,424
Subrecipient award	24,159	74,275
Miscellaneous	126,193	57,210
Other	84,016	89,261
	<u>26,387,374</u>	<u>31,096,209</u>
Total expenses	<u>26,387,374</u>	<u>31,096,209</u>
Increase (decrease) in unrestricted net assets	148,457	482,703
Net assets - beginning of year	<u>4,051,640</u>	<u>3,568,937</u>
Net assets - End of year	<u>\$ 4,200,097</u>	<u>\$ 4,051,640</u>

The accompanying notes are an integral part of these financial statements

Lincoln Community Health Center, Inc.
Statement of Functional Expenses
For the Fiscal Year Ended June 30, 2014

	<u>Program Services</u>	<u>Management and General</u>	<u>Totals</u>
Salaries and wages	\$ 7,085,062	\$ 1,842,844	\$ 8,927,906
Payroll taxes	556,805	142,229	699,034
Retirement expenses	325,218	95,899	421,117
Fringe benefits	969,580	188,883	1,158,463
Contracted services - medical	3,032,970	77,149	3,110,119
Donated services and facilities	6,818,464	770,195	7,588,659
Donated pharmaceuticals	1,783,698	-	1,783,698
Supplies	439,941	46,346	486,287
Travel	89,297	41,228	130,525
Depreciation	120,866	217,069	337,935
Professional fees	3,394	99,016	102,410
Contracted services - other	210,388	43,183	253,571
Occupancy	100,804	13,434	114,238
Dues and subscriptions	15,721	38,856	54,577
Insurance	7,783	38,846	46,629
Interest	-	5,250	5,250
Telephone	291,671	88,471	380,142
Repairs and maintenance	300,263	12,898	313,161
Training and continuing education	33,032	9,790	42,822
Postage and freight	39,316	22,682	61,998
Recruiting and retention	16,821	19,557	36,378
Publications and miscellaneous supplies	44,780	53,307	98,087
Subrecipient award	24,159	-	24,159
Miscellaneous	5,500	120,693	126,193
Other	15,948	68,068	84,016
Total functional expenses	<u><u>\$ 22,331,481</u></u>	<u><u>\$ 4,055,893</u></u>	<u><u>\$ 26,387,374</u></u>

The accompanying notes are an integral part of these financial statements

Lincoln Community Health Center, Inc.
Statement of Functional Expenses
For the Fiscal Year Ended June 30, 2013

	<u>Program Services</u>	<u>Management and General</u>	<u>Totals</u>
Salaries and wages	\$ 6,847,199	\$1,866,243	\$ 8,713,442
Payroll taxes	498,908	147,920	646,828
Retirement expenses	310,912	90,417	401,329
Fringe benefits	839,186	251,768	1,090,954
Contracted services - medical	3,159,726	1,715	3,161,441
Donated services and facilities	6,711,683	768,630	7,480,313
Donated pharmaceuticals	7,179,466	-	7,179,466
Supplies	401,415	55,363	456,778
Travel	84,518	45,968	130,486
Depreciation	99,484	178,183	277,667
Professional fees	37,564	69,217	106,781
Contracted services - other	95,822	146,317	242,139
Occupancy	97,589	13,425	111,014
Dues and subscriptions	47,432	46,626	94,058
Insurance	6,946	17,171	24,117
Interest	-	821	821
Telephone	214,379	49,572	263,951
Repairs and maintenance	307,173	19,478	326,651
Training and continuing education	7,332	4,071	11,403
Postage and freight	46,672	11,501	58,173
Recruiting and retention	19,877	24,350	44,227
Publications and miscellaneous supplies	14,782	38,642	53,424
Subrecipient award	74,275	-	74,275
Miscellaneous	7,175	50,035	57,210
Other	44,013	45,248	89,261
Total functional expenses	<u><u>\$ 27,153,528</u></u>	<u><u>\$3,942,681</u></u>	<u><u>\$ 31,096,209</u></u>

The accompanying notes are an integral parts of these financial statements

Lincoln Community Health Center, Inc.
Statements of Cash Flows
For the Fiscal Year Ended June 30, 2014

	2014	2013
Cash flows from operating activities		
Cash received from patients and third-party payers	\$7,165,262	\$ 6,677,560
Cash received in the form of government and private financial assistance	10,001,835	9,978,663
Cash received in the form of contracted services	5,725	-
Cash paid to employees for services	(8,855,210)	(8,575,821)
Cash paid for goods and services	(8,160,494)	(7,337,724)
Interest income	4,510	4,655
	161,628	747,333
Cash flows from capital and related financing activities		
Investment activity	5,000	(5,000)
Acquisition of capital assets, net of retirements	(31,409)	(240,418)
Capital lease repayments	(44,652)	-
	(71,061)	(245,418)
Net increase (decrease) in cash and cash equivalents	90,567	501,915
Cash and cash equivalents - beginning of year	1,547,713	1,045,798
Cash and cash equivalents - end of year	\$ 1,638,280	\$ 1,547,713
Reconciliation of increase (decrease) in net assets to net cash provided (used) by operating activities:		
Increase (decrease) in unrestricted net assets	\$ 148,457	\$ 482,703
Adjustments to reconcile excess change in net assets to cash provided (used) by operating activities -		
Depreciation	337,935	277,667
Changes in assets and liabilities -		
Net (increase) decrease in receivables, inventory, and prepaids	71,854	313,550
Net increase (decrease) in payables, accrued expenses	(396,618)	(326,587)
Total adjustments	13,171	264,630
Net cash provided (used) by operating activities	\$ 161,628	\$ 747,333
Non-cash investing and financing activities		
Capital asset acquisitions via capital lease	\$ -	\$ 129,736

The accompanying notes are an integral part of these financial statements

Lincoln Community Health Center, Inc.
Notes to Financial Statements
June 30, 2014 and 2013

Note A – 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 wished to enter a continuity-of-care system that included, 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 prevention and disease prevention.

The clinical staff includes pediatricians, internists, specialty physicians, 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, 1988, 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.
- 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 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, By-laws, 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.

See independent auditor’s report

Lincoln Community Health Center, Inc.
Notes to Financial Statements
June 30, 2014 and 2013

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 fair value, as determined by the Corporation, of the facility as contributed services and the use of the facilities, revenue and correspondingly, records a facility expense to the appropriate department category based on square footage. The Center leases the land on the the facility of 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 values of the donated and/or discounted services are recorded as contributed service revenue and charged to the appropriate department expense category.

Financial Statement Presentation

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

Basis of Accounting

Lincoln Community Health Center, Inc. (the "Corporation") recognizes revenue and expenses according to the accrual basis of accounting, thereby recognizing revenue when earned and expenses when incurred and accordingly reflect all significant receivables, payables, and other liabilities.

Cash and Cash Equivalents

For the purposes of the Statement of Cash Flows, cash equivalents include time deposits, certificates of deposit, and all highly liquid debt instruments with original maturities of three months or less.

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.

Net Patient Service Revenue/Accounts Receivable

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payers. Accounts receivable are stated at unpaid balances, less an allowance for uncollectible accounts using the allowance method.

Property and Equipment

The cost of property and equipment is depreciated by the straight-line method for financial reporting purposes. The estimated useful lives used in the depreciation calculation are as follows:

Furniture and equipment	5-10 years
Leasehold improvements	35 years

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 therefrom is subject to Federal regulations. The Center capitalizes all non-expendable property expenditures of \$1,000 or more. Expenditures for maintenance, repairs, renewals, and improvements, which do not materially extend the useful lives of the assets, are treated as charges to revenue in the period in which they are incurred.

See independent auditor's report

Lincoln Community Health Center, Inc.
Notes to Financial Statements
June 30, 2014 and 2013

Capital Leases

Capital lease obligations are recorded at the present value of the future minimum payments discounted at the interest rate implicit in the lease(s). A corresponding amount is capitalized as the value of the asset and depreciated over its estimated useful, ranging from three to fifteen years.

Grants

The Center recognizes Federal and state grant awards to the extent that allowable grant expenditures have been incurred. Federal and state grants received prior to incurring allowable grant expenditures 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 39% and 28% for 2014 and 2013, respectively, of total revenue and 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 adjustments.

Net Patient Service Revenue

Patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers, and other services rendered after allowances, adjustments and provision for bad debts.

Donated Pharmaceuticals

The Center participates in a program, sponsored by a drug company, which provides pharmaceuticals to indigent patients. The inventory of donated pharmaceuticals is replenished periodically by the donor upon receipt of documentation of amounts dispersed and is valued at donor's wholesale prices. The inventory and dispensing of same are completely controlled by the System. The total contributions received during the years ended June 30, 2014 and June 30, 2013 are \$1,395,831 and \$7,273,524, respectively. The amounts reflected in inventory for the years ended June 30, 2014 and 2013 are \$20,680 and \$408,548, respectively. The amounts actually expensed for the years ended June 30, 2014 and 2013 are \$1,783,698 and \$7,249,203, respectively. Differences of amounts reflected as income and corresponding expense are solely due to inventory fluctuations.

Advertising costs

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

Functional Allocation of Expenses

The costs of providing the various programs and activities have been summarized on a functional basis in the Statement of Activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited. 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 time records, direct salaries, and square footage. Management and general expenses include those expenses that are not directly identifiable with any specific function but provide for the overall support and direction of the Center.

Lincoln Community Health Center, Inc.
Notes to Financial Statements
June 30, 2014 and 2013

Funds on Deposit

Financial instruments that potentially subject Lincoln Community Health Center, Inc. to concentrations of credit risk consist principally of cash deposits. Lincoln Community Health Center, Inc. generally limits its exposure to credit risk from balances on deposit in financial institutions in excess of the FDIC-insured limit. The FDIC insurance coverage is limited to \$250,000 per financial institutions. The Corporation exceeded the aforementioned limit by \$987,765 and \$917,606, for the fiscal years ended June 30, 2014 and 2013, respectively.

Income Taxes

The Corporation is exempt from federal income tax under Section 501(c)(3) of the U.S. Internal Revenue Code and, therefore, no provision for Federal or state income taxes has been made in the accompanying financial statements. However, income from certain activities not directly related to the Center's tax-exempt purpose could be subject to taxation as unrelated business income. In addition, the Center qualifies for the charitable contribution deduction under Section 170(b)(1)(3) and has been classified as an organization other than a private foundation under Section 509(a)(2).

The Center's open audit periods are the fiscal years ended June 30, 2012 through June 30, 2014.

Management Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at June 30, 2014, and revenue and expenses during the fiscal year then ended. Actual results could differ from those estimates.

Reclassifications

Certain financial nomenclature and prior year amounts have been reclassified to conform to current year financial statement format.

Note B – Property and Equipment

Property and equipment consist of the following

	2014	2013
Leasehold improvements	\$ 2,003,025	\$ 2,003,026
Medical equipment	367,638	355,654
Equipment - computer related	1,961,308	1,910,192
Office equipment	1,095,273	1,095,273
Other equipment	1,402,307	1,402,307
	<u>6,829,551</u>	<u>6,766,452</u>
Less Accumulated depreciation	4,913,543	4,943,918
Property and equipment, net	<u>\$ 1,916,008</u>	<u>\$ 1,822,534</u>

Depreciation expense reflected in the financial statements for the years ended June 30, 2014 and 2013 was \$337,935 and \$277,667, respectively.

Lincoln Community Health Center, Inc.
Notes to Financial Statements
June 30, 2014 and 2013

Note C - Operating Leases

Rent expense for the years ended June 30, 2014 and 2013 was \$117,632 and \$158,188, respectively. Annual rental commitments under operating leases are outlined immediately below:

2014	\$	82,548
2015		82,548
2016		82,548
2017		61,548
2018		56,419

Note D - Capital Leases

The Center acquired telephone equipment and maintenance services under a capital lease. The following is a schedule, by year, of future minimum lease payments under the lease, together with the present value of new minimum lease payments, at various rates of imputed interest, as of June 30, 2014 and 2013:

Year ending June 30	<u>2014</u>	<u>2013</u>
2014	\$ -	\$ 52,533
2015	48,492	48,492
2016	44,450	44,450
Total future minimum lease payments	92,942	145,475
Less: amounts representing interest	7,878	15,749
Present value of minimum lease payments	85,064	129,726
Less: current portion	28,304	43,486
Long-term portion	<u>\$ 56,760</u>	<u>\$ 86,240</u>

Note E – 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.

Lincoln Community Health Center, Inc.
Notes to Financial Statements
June 30, 2014 and 2013

Note F – Grant Revenue

Grant revenue consists of the following:

	2014	2013
Direct and passed-through federal awards	\$ 6,857,399	\$ 6,473,592
Durham County Hospital Corporation and Durham Regional Hospital	2,684,102	2,646,908
Duke University Hospital System	538,105	542,756
State Government and others	354,531	284,073
	\$ 10,434,137	\$ 9,947,329

Note G – Retirement 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 with the Plan document. Total contributions to the Plans by the Center were \$421,117 and \$401,329 for years ended June 30, 2014 and 2013, respectively.

Note H – Concentrations of Credit Risk

Lincoln Community Health Center, Inc. is obligated to pay, within certain limits, earned and accumulated employee vacation pay. Management has implemented certain limitations with regards to accumulated vacation pay. Therefore, under guidelines established under SFAS No. 43, 100% of accumulated vacation was accrued for the years ended June 30, 2014 and 2013, and is reflected on the balance sheet in the amounts of \$354,941 and \$351,764, respectively..

Note I – Commitments and Contingencies

Financial awards from Federal, state and local governmental entities are subject to special compliance requirement audits. No provision has been made in the financial statements for any liability that may arise from such an 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 J – Subsequent Events

Were evaluated through September 30, 2014 which is the date the financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

Lincoln Community Health Center, Inc.
Detailed Schedule of Functional Expenses
For the Fiscal Year Ended June 30, 2014

	Community Health Center	WIC	WIC BFPC	General and Admin.	Total
Salaries and wages	\$ 6,160,850	\$ 901,273	\$ 22,939	\$ 1,842,844	\$ 8,927,906
Payroll taxes	483,310	71,498	1,997	142,229	699,034
Retirement expenses	285,095	39,005	1,118	95,899	421,117
Fringe benefits	786,530	176,429	6,621	188,883	1,158,463
Contracted services - medical	2,914,433	118,537	-	77,149	3,110,119
Donated services and facilities	6,818,464	-	-	770,195	7,588,659
Donated pharmaceuticals	1,783,698	-	-	-	1,783,698
Supplies	400,467	39,474	-	46,346	486,287
Travel	79,611	9,599	87	41,228	130,525
Depreciation	114,171	6,695	-	217,069	337,935
Professional fees	2,134	1,260	-	99,016	102,410
Contracted services - other	175,975	34,413	-	43,183	253,571
Occupancy	58,812	41,992	-	13,434	114,238
Dues and subscriptions	15,639	82	-	38,856	54,577
Insurance	7,783	-	-	38,846	46,629
Interest	-	-	-	5,250	5,250
Telephone	274,189	17,482	-	88,471.00	380,142
Repairs and maintenance	264,797	35,466	-	12,898	313,161
Training and continuing education	31,196	1,836	-	9,790	42,822
Postage and freight	27,690	11,626	-	22,682.00	61,998
Recruiting and retention	16,051	770	-	19,557.00	36,378
Publications and miscellaneous supplies	33,639	11,141	-	53,307	98,087
Subrecipient award	24,159	-	-	-	24,159
Miscellaneous	2,450	3,050	-	120,693	126,193
Other	14,101	1,847	-	68,068	84,016
Total functional expenses	\$ 20,775,244	\$ 1,523,475	\$ 32,762	\$ 4,055,893	\$ 26,387,374

See independent auditor's report

COMPLIANCE SECTION

S. Preston Douglas & Associates, LLP

CERTIFIED PUBLIC ACCOUNTANTS

MEMBERS
American Institute of CPAs
N. C. Association of CPAs

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*

Lincoln Community Health Center, Inc.
Durham, North Carolina

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standard*, issued by the Comptroller General of the United States, the accompanying basic financial statements of Lincoln Community Health Center, Inc., as of and for the fiscal year then ended June 30, 2014, and the related notes to the financial statements, which collectively comprises Lincoln Community Health Center, Inc.'s basic financial statements, and have issued our report thereon dated July 31, 2014.

Internal Control Over Financial Reporting

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

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

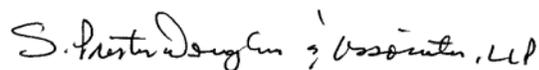
Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations,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

Compliance and Other Matters

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

Purpose of this Report

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



Lumberton, North Carolina
September 30, 2014

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S. Preston Douglas & Associates, LLP

CERTIFIED PUBLIC ACCOUNTANTS

MEMBERS

American Institute of CPAs
N. C. Association of CPAs

Report on Compliance For Each Major Federal Program and Report on Internal Control Over Compliance In Accordance with OMB Circular A-133

Lincoln Community Health Center, Inc.
Durham, North Carolina

Report on Compliance for Each Major Federal Program

We have audited Lincoln Community Health Center, Inc.'s compliance with the types of compliance requirements described in the OMB *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Lincoln Community Health Center, Inc.'s major federal programs for the fiscal year then ended June 30, 2014. 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.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Center's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the 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 on compliance for each major federal program. However, our audit does not provide a legal determination on Lincoln Community Health Center, Inc.'s compliance.

Opinion on Each Major Federal Program

In our opinion, Lincoln Community Health Center, Inc. complied, in all material respects, with the types of 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, 2014.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 14-01, 14-02, 14-03 and 14-04. Our opinion on each major federal program is not modified with respect to these matters.

Lincoln Community Health Center, Inc.'s response to the noncompliance findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. Lincoln Community Health Center, Inc.'s response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

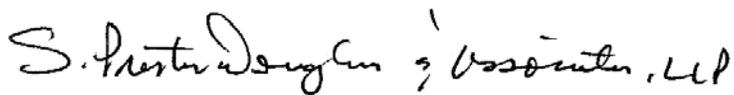
Management of Lincoln Community Health Center, Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit, we considered Lincoln Community Health Center, Inc.'s internal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

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

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying Schedule fo Findings and Questioned Costs as items, 14-01, 14-02, 14-03 and 14-04 that we consider to be significant deficiencies.

Lincoln Community Health Center, Inc.'s reponse to the internal control over compliance findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. Lincoln Community Health Center, Inc.'s response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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



Lumberton, North Carolina
September 30, 2014

**Lincoln Community Health Center, Inc.
Schedule of Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2014**

Section I. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
• Material weakness(es) identified?	_____ yes <u> X </u> no
• Significant deficiency(s) identified that are not considered to be material weaknesses	_____ yes <u> X </u> none reported
• Noncompliance material to financial statements	_____ yes <u> X </u> no

Federal Awards

Type of auditor's report issued on compliance for major federal programs:	Unmodified
Internal control over major federal programs:	
• Material weakness(es) identified?	_____ yes <u> X </u> no
• Significant deficiency(s) identified that are not considered to be material weaknesses	<u> X </u> yes _____ none reported
• Noncompliance material to federal awards	_____ yes <u> X </u> no
• Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133	_____ yes <u> X </u> no

Identification of major federal programs:

CFDA Numbers

93.224

Names of Federal Program or Cluster

Community Health Center
Healthcare for the Homeless
Outreach and enrollment
Supplemental
Base adjustment

Dollar Threshold used to distinguish between Type A and Type B programs

\$300,000

Auditee qualified as low-risk auditee?

_____ yes X no

**Lincoln Community Health Center, Inc.
Schedule of Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2014**

Section II. Financial Statement Findings

None reported

Section III. Federal Award Findings and Questioned Costs

Finding 2014-01 SIGNIFICANT DEFICIENCY

Criteria: Grant stipulates formal and timely Board approval of the annual budget.

Condition: Budget was formally approved and documented in the minutes after monitoring visit results were made known.

Effect: Minutes must document that Board was made fully aware of pertinent budget data.

Cause: No documentation that Board was timely notified.

Questioned cost: Not applicable – issue is broad-based and strategic in nature

Recommendation: Formal and timely documentation outlining budget approval

View of responsible officials and planned corrective action: Center officials agree with this finding and corrected this oversight prior to year end. Budget will be reviewed and submitted to board on a timely basis.

Finding 2014-02 SIGNIFICANT DEFICIENCY

Criteria: Center provides a sophisticated and comprehensive healthcare delivery system but monitoring visit revealed the following: one, formal agreements should be executed with certain hospitals to assure continuity of care, and two, modifying internal functions to formally establish arrangements for in-patient care, discharge planning, referrals and patient tracking.

Condition: A fully integrated healthcare delivery system is a condition of the grant.

Effect: Patient may not receive ideal care.

Cause: Responsible personnel were not aware of a deficiency and/or felt existing agreements and protocol were sufficient.

Questioned cost: Not applicable – issue is continuity of patient care.

Recommendation: A more comprehensive written agreement should be executed.

View of responsible officials and planned corrective action: Center officials agree with this finding and are in the process of correcting this oversight. New EMR conversion will address many issues. Committee recommendations will be reviewed on an annual basis.

**Lincoln Community Health Center, Inc.
Schedule of Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2014**

Finding 2014-03 SIGNIFICANT DEFICIENCY

- Criteria: Grant stipulates grant recipient have a schedule of discounts applied and adjusted based on the patient's ability to pay.
- Condition: Of approximately 29,000 sliding fees encounters, we examined a systematically selected sample of sixty items. In all items examined, except one, the file contained an application and some evidence of family income. Most of this evidence was in the form of a self-declaration of income. Concrete documentation such as an income tax return or pay stub was lacking.
- Effect: Health centers are required to make every reasonable effort to recoup costs. Placing the patient in incorrect poverty level may result in incorrect billing of services performed.
- Cause: Minutes did not reflect fact that Board received notification that some patients were not producing concrete documentation of household income.
- Questioned cost: Not applicable – issue is revenue based.
- Recommendation: Obtain adequate documentation in lieu of the self-declaration.

View of responsible officials and planned corrective action: Center officials agree with this finding and have aggressively instituted new procedures prior September 30, 2014.

Finding 2014-04 SIGNIFICANT DEFICIENCY

- Criteria: Health centers are required to make every reasonable effort to collect appropriate reimbursement for their costs.
- Condition: In many instances, we noticed the nominal fee was not collected from patient. Indeed management concedes this issue because patients were served regardless of ability to pay.
- Effect: Health centers are required to make every reasonable effort to recoup costs.
- Cause: Pervasive mindset of clinic personnel is it's a free clinic.
- Questioned cost: Not applicable – issue is revenue based.
- Recommendation: Collect the nominal fee.

View of responsible officials and planned corrective action: Center officials agree with this finding and are in the process of ramping up efforts to collect the nominal fee and have changed procedures in this regard prior to September 30, 2014.

**Lincoln Community Health Center, Inc.
Corrective Action Plan
For the Fiscal Year Ended June 30, 2014**

Section II. Financial Statement Findings

None reported

Section III. Federal Award Findings and Questioned Costs

Finding 2014-01

Name of contact person	William P Seagroves, CFO
Corrective action:	Budget will be created, reviewed and timely submitted to Board.
Proposed completion date:	Immediately

Finding 2014-02

Name of contact person	Philip Harewood, CEO
Corrective action:	Create and execute formal agreements with Hospital(s) and create new internal protocol
Proposed completion date:	Immediately

Finding 2014-03

Name of contact person	William P Seagroves, CFO
Corrective action:	Direct staff to obtain more concrete evidence of family income
Proposed completion date:	Immediately

Finding 2014-04

Name of contact person	William P Seagroves, CFO
Corrective action:	Direct staff to collect the nominal fee at check in
Proposed completion date:	Immediately

Lincoln Community Health Center, Inc.
Prior Year Findings
For the Fiscal Year Ended June 30, 2014

There were no prior year findings.

Lincoln Community Health Center, Inc.
Schedule of Expenditures of Federal and State Awards
For the Fiscal Year Ended June 30, 2014

Grantor/Pass - through Grant/Program Title	Federal CFDA Number	Award number/State Pass-through Grantor's Number	Federal (Direct Pass- through) Expenditures	State Expenditures
Federal Grants:				
Cash Assistance:				
Major Programs				
<u>U.S. Department of Health and Human Services</u>				
Direct Programs:				
Community Health Centers	93.224	H80CS00477-12-00	\$ 3,865,052	\$ -
	93.224	H80CS00477-13-00	378,950	-
Health Care for the Homeless	93.224	H80CS00477-12-00	103,581	-
	93.224	H80CS00477-13-00	10,157	-
Outreach and enrollment	93.224	H80CS00477-12-08	301,296	-
Supplemental	93.224	H80CS00477-12-04	38,000	-
Base adjustment	93.224	H80CS00477-12-05	54,480	-
Total Consolidated Health Center Cluster - Total Major Programs			4,751,516	
Other federal assistance				
<u>U.S. Department of Health and Human Services</u>				
Direct Programs:				
Outpatient Early Intervention with Respect to HIV disease	93.918	H76HA00093-22-00	384,636	-
	93.918	H76HA00093-23-00	76,927	-
Passed through Wake County, North Carolina HIV Care Formula Grants	93.917		74,619	-
<u>U.S. Department of Health and Human Services</u>				
Passed through North Carolina Department of Health and Human Services/Division of Public Health				
Special Supplemental Nutrition Program for Women, Infants and Children	10.557	27567	396,812	-
	10.557	29427	1,172,889	-
Cash Assistance:				
<u>N.C. Department of Health and Human Services</u>				
Community Health Grant	N/A	29432	-	77,607
	N/A	28137		40,946
Total federal and State awards			\$ 6,857,399	\$ 118,553

Notes to the Schedule of Expenditures of federal and State Awards:

The schedule of expenditures of federal and State awards includes the federal and State grant activity of Lincoln Community Health Center, Inc. and is presented on the modified 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. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.